

FIRST TRUST SPECIALTY FINANCE & FINANCIAL OPPORTUNITIES FUND

Form N-Q

October 30, 2008

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED MANAGEMENT  
INVESTMENT COMPANY

Investment Company Act file number 811-22039

FIRST TRUST SPECIALTY FINANCE AND FINANCIAL OPPORTUNITIES FUND

(FORMERLY FIRST TRUST/GALLATIN SPECIALTY FINANCE AND FINANCIAL  
OPPORTUNITIES FUND)

(Exact name of registrant as specified in charter)

120 East Liberty Drive  
WHEATON, IL 60187  
(Address of principal executive offices) (Zip code)

W. Scott Jardine, Esq.  
First Trust Portfolios L.P.  
120 East Liberty Drive  
WHEATON, IL 60187  
(Name and address of agent for service)

Registrant's telephone number, including area code: 630-765-8000

Date of fiscal year end: NOVEMBER 30

Date of reporting period: AUGUST 31, 2008

Form N-Q is to be used by management investment companies, other than small business investment companies registered on Form N-5 (ss.ss. 239.24 and 274.5 of this chapter), to file reports with the Commission, not later than 60 days after the close of the first and third fiscal quarters, pursuant to rule 30b1-5 under the Investment Company Act of 1940 (17 CFR 270.30b1-5). The Commission may use the information provided on Form N-Q in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-Q, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-Q unless the Form displays a currently valid Office of Management and Budget ("OMB") control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to the Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. ss. 3507.

ITEM 1. SCHEDULE OF INVESTMENTS.

The Schedule(s) of Investments is attached herewith.

FIRST TRUST SPECIALTY FINANCE AND FINANCIAL OPPORTUNITIES FUND

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(FORMERLY KNOWN AS FIRST TRUST/GALLATIN SPECIALTY FINANCE AND  
FINANCIAL OPPORTUNITIES FUND)  
PORTFOLIO OF INVESTMENTS (a)  
AUGUST 31, 2008 (UNAUDITED)

SHARES	DESCRIPTION	VALUE
COMMON STOCKS - 115.2%		
CAPITAL MARKETS - 78.1%		
515,660	Allied Capital Corp. ....	\$ 7,605,985
250,000	American Capital Strategies, Ltd. ....	5,435,000
646,706	Apollo Investment Corp. ....	11,446,696
1,113,333	Ares Capital Corp. ....	13,460,196
650,000	BlackRock Kelso Capital Corp. ....	7,273,500
460,000	Gladstone Capital Corp. ....	7,203,600
183,333	Gladstone Investment Corp. ....	1,332,831
50,000	GSC Investment Corp. ....	540,500
506,205	Hercules Technology Growth Capital, Inc. ....	5,269,594
50,000	Highland Distressed Opportunities, Inc. ....	250,000
15,000	Invesco, Ltd., Sponsored ADR ....	384,450
571,667	Kohlberg Capital Corp. ....	6,282,620
472,000	MCG Capital Corp. ....	1,642,560
690,000	MVC Capital, Inc. ....	10,301,700
406,737	NGP Capital Resources Co. ....	6,617,611
550,000	Patriot Capital Funding, Inc. ....	4,080,999
600,000	PennantPark Investment Corp. ....	4,794,000
655,152	Prospect Energy Corp. ....	9,172,128
463,785	TICC Capital Corp. ....	2,791,986
		-----
		105,885,956
		-----
COMMERCIAL BANKS - 1.6%		
70,000	Wells Fargo & Co. ....	2,118,900
		-----
DIVERSIFIED FINANCIAL SERVICES - 5.1%		
85,211	Financial Federal Corp. ....	2,127,719
459,504	Medallion Financial Corp. ....	4,769,652
100	WisdomTree Investments, Inc. (b) ....	210
		-----
		6,897,581
		-----
REAL ESTATE INVESTMENT TRUSTS (REITS) - 30.4%		
350,000	Annaly Capital Management, Inc. ....	5,236,000
330,000	Arbor Realty Trust, Inc. ....	2,907,300
175,000	Capital Trust, Inc. - Class A ....	2,110,500
470,000	CapitalSource, Inc. ....	5,912,600
192,307	Cypress Sharpridge Investments, Inc. (c) (d) ....	2,999,989
540,000	Gramercy Capital Corp. ....	3,612,600
100,000	Hatteras Financial Corp. ....	2,475,000
420,000	iStar Financial, Inc. ....	2,347,800
1,040,000	NorthStar Realty Finance Corp. ....	7,436,000
200,000	RAIT Financial Trust ....	1,186,000
270,000	Redwood Trust, Inc. ....	5,062,500
		-----
		41,286,289
		-----
TOTAL COMMON STOCKS		
	(Cost \$271,288,588) ....	156,188,726
		=====

See Notes to Quarterly Portfolio of Investments

Page 1

FIRST TRUST SPECIALTY FINANCE AND FINANCIAL OPPORTUNITIES FUND  
 (FORMERLY KNOWN AS FIRST TRUST/GALLATIN SPECIALTY FINANCE AND  
 FINANCIAL OPPORTUNITIES FUND)  
 PORTFOLIO OF INVESTMENTS (a) - (CONTINUED)  
 AUGUST 31, 2008 (UNAUDITED)

SHARES	DESCRIPTION	VALUE
CANADIAN INCOME TRUSTS - 9.6%		
	OIL, GAS & CONSUMABLE FUELS - 9.6%	
100	ARC Energy Trust .....	\$ 2,845
256,800	Enerplus Resources Fund .....	11,116,872
63,000	Penn West Energy Trust .....	1,849,680
100	Progress Energy Trust .....	1,497
	TOTAL CANADIAN INCOME TRUSTS	
	(Cost \$ 14,186,618) .....	12,970,894
WARRANTS - 0.0%		
	REAL ESTATE INVESTMENT TRUST (REIT) - 0.0%	
576,923	Cypress Sharpridge Investments, Inc., expires 04/30/11 (b) (c) (d) .....	0
	TOTAL WARRANTS	
	(Cost \$ 0) .....	0
	TOTAL INVESTMENTS - 124.8%	
	(Cost \$ 285,475,206) (e) .....	169,159,620
	LOAN OUTSTANDING - (31.1)% .....	(42,100,000)
	NET OTHER ASSETS AND LIABILITIES - 6.3% .....	8,505,653
	NET ASSETS - 100.0% .....	\$135,565,273

(a) All percentages shown in the Portfolio of Investments are based on net assets.

(b) Non-income producing security.

(c) This security, sold within the terms of a private placement memorandum, is exempt from registration under Rule 144A of the Securities Act of 1933, as amended, and may be resold in transactions exempt from registration, normally to qualified institutional buyers. (See Note 1C-Restricted Securities in the Notes to Quarterly Portfolio of Investments).

(d) This security is fair valued in accordance with valuation procedures adopted by the Fund's Board of Trustees.

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(e) Aggregate cost for federal income tax and financial reporting purposes. As of August 31, 2008, the aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost was \$900,472 and the aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value was \$117,216,058.

ADR American Depositary Receipt

SECURITY VALUATION INPUTS

A summary of the inputs used to value the Fund's net assets as of August 31, 2008 is as follows (see Note 1A-Portfolio Valuation in the Notes to Quarterly Portfolio of Investments):

VALUATION INPUTS -----	INVESTMENTS IN SECURITIES -----
Level 1 - Quoted Prices .....	\$166,159,631
Level 2 - Other Significant Observable Inputs ..	--
Level 3 - Significant Unobservable Inputs .....	2,999,989
	-----
TOTAL	\$169,159,620
	=====

The following table presents the Fund's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at November 30, 2007 and at August 31, 2008.

ASSETS AT FAIR VALUE USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) -----	INVESTMENTS IN SECURITIES -----
Balance as of November 30, 2007 .....	\$ --
Net purchases (sales) .....	2,999,989
	-----
Balance as of August 31, 2008 .....	\$2,999,989
	=====

See Notes to Quarterly Portfolio of Investments

NOTES TO QUARTERLY PORTFOLIO OF INVESTMENTS

FIRST TRUST SPECIALTY FINANCE AND FINANCIAL OPPORTUNITIES FUND  
(FORMERLY KNOWN AS FIRST TRUST/GALLATIN SPECIALTY FINANCE AND  
FINANCIAL OPPORTUNITIES FUND) AUGUST 31, 2008 (UNAUDITED)

1. VALUATION AND INVESTMENT PRACTICES

A. PORTFOLIO VALUATION:

The net asset value ("NAV") of the Common Shares of First Trust Specialty Finance and Financial Opportunities Fund (the "Fund") is determined daily as of the close of regular trading on the New York Stock Exchange ("NYSE"), normally 4:00 p.m. Eastern time, on each day the NYSE is open for trading. Domestic debt securities and foreign securities are priced using data reflecting the earlier closing of the principal markets for those securities. The NAV per Common Share is calculated by dividing the value of all assets of the Fund (including accrued interest and dividends), less all liabilities (including accrued expenses, dividends declared but unpaid and any borrowings of the Fund) by the total number of Common Shares outstanding.

The Fund's investments are valued daily at market value or, in the absence of market value with respect to any portfolio securities, at fair value according to procedures adopted by the Fund's Board of Trustees. A majority of the Fund's assets are valued using market information supplied by third parties. In the event that market quotations are not readily available, the pricing service does not provide a valuation for a particular asset, or the valuations are deemed unreliable, First Trust Advisors L.P. ("First Trust") may use a fair value method to value the Fund's securities and other investments. Additionally, if events occur after the close of the principal markets for particular securities (e.g. domestic debt and foreign securities), but before the Fund values its assets, that could materially affect NAV, First Trust may use a fair value method to value the Fund's securities and other investments. The use of fair value pricing by the Fund is governed by valuation procedures adopted by the Fund's Board of Trustees and in accordance with the provisions of the Investment Company Act of 1940, as amended.

Portfolio securities listed on any exchange other than the NASDAQ National Market ("NASDAQ") are valued at the last sale price on the business day as of which such value is being determined. If there has been no sale on such day, the securities are valued at the mean of the most recent bid and asked prices on such day. Securities traded on the NASDAQ are valued at the NASDAQ Official Closing Price as determined by NASDAQ. Portfolio securities traded on more than one securities exchange are valued at the last sale price on the business day as of which such value is being determined at the close of the exchange representing the principal market for such securities. Portfolio securities traded in the over-the-counter market, but excluding securities traded on the NASDAQ, are valued at the closing bid prices. Short-term investments that mature in less than 60 days when purchased are valued at amortized cost.

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("FAS 157"), effective for fiscal years beginning after November 15, 2007. This standard clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosures about the use of fair value measurements. FAS 157 became effective for the Fund as of December 1, 2007, the beginning of its current fiscal year. The three levels of the fair value hierarchy under FAS 157 are described below:

- Level 1 - quoted prices in active markets for identical securities
- Level 2 - other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 - significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. A summary of the inputs used to value the Fund's net assets as of August 31, 2008 is included in the Fund's Portfolio of Investments.

B. SECURITIES TRANSACTIONS:

Securities transactions are recorded as of the trade date. Realized gains and losses from securities transactions are recorded on the identified cost basis.

NOTES TO QUARTERLY PORTFOLIO OF INVESTMENTS - (CONTINUED)

FIRST TRUST SPECIALTY FINANCE AND FINANCIAL OPPORTUNITIES FUND  
 (FORMERLY KNOWN AS FIRST TRUST/GALLATIN SPECIALTY FINANCE AND  
 FINANCIAL OPPORTUNITIES FUND) AUGUST 31, 2008 (UNAUDITED)

C. RESTRICTED SECURITIES:

The Fund invests in restricted securities, which are securities that cannot be offered for public sale without first being registered under the Securities Act of 1933, as amended. Prior to registration, restricted securities may only be resold in transactions exempt from registration. As of August 31, 2008, the Fund held restricted securities as shown in the following table. The Fund does not have the right to demand that such securities be registered. These securities are valued according to the valuation procedures as stated in the Portfolio Valuation footnote (Note 1A) and are not expressed as a discount to the carrying value of comparable unrestricted securities.

SECURITY	ACQUISITION DATE	SHARES	VALUE PER SHARE	CURRENT CARRYING COST	VALU
Cypress Sharpridge Investments, Inc.	5/19/08	192,307	\$15.60	\$2,999,989	\$2,999
Cypress Sharpridge Investments, Inc. Warrants	5/30/08	576,923	0	0	
		769,230		\$2,999,989	\$2,999
		=====		=====	=====

ITEM 2. CONTROLS AND PROCEDURES.

- (a) The registrant's principal executive and principal financial officers, or persons performing similar functions, have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act") (17 CFR 270.30a-3(c))) are effective, as of a date within 90 days of the filing date of the report that includes the disclosure required by this paragraph, based on their evaluation of these controls and procedures required by Rule 30a-3(b) under the 1940 Act (17 CFR 270.30a-3(b)) and Rules 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934, as amended (17 CFR 240.13a-15(b) or 240.15d-15(b)).
- (b) There were no changes in the registrant's internal control over

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financial reporting (as defined in Rule 30a-3(d) under the 1940 Act (17 CFR 270.30a-3(d)) that occurred during the registrant's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

ITEM 3. EXHIBITS.

Certifications pursuant to Rule 30a-2(a) under the 1940 Act and Section 302 of the Sarbanes-Oxley Act of 2002 are attached hereto.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant) FIRST TRUST SPECIALTY FINANCE AND FINANCIAL OPPORTUNITIES FUND (FORMERLY FIRST TRUST/GALLATIN SPECIALTY FINANCE AND FINANCIAL OPPORTUNITIES FUND)

By (Signature and Title)\* /S/ JAMES A. BOWEN

-----  
James A. Bowen, Chairman of the Board, President and  
Chief Executive Officer  
(principal executive officer)

Date OCTOBER 20, 2008  
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Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By (Signature and Title)\* /S/ JAMES A. BOWEN

-----  
James A. Bowen, Chairman of the Board, President and  
Chief Executive Officer  
(principal executive officer)

Date OCTOBER 20, 2008  
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By (Signature and Title)\* /S/ MARK R. BRADLEY

-----  
Mark R. Bradley, Treasurer, Controller, Chief Financial  
Officer and Chief Accounting Officer  
(principal financial officer)

Date OCTOBER 20, 2008  
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\* Print the name and title of each signing officer under his or her signature.