



January 13, 2010

Dear Shareholder:

**Results**

In 2009, Bridges Investment Fund, Inc. (BIF) had a total return of +34.41% based on a December 31, 2008 net asset value of \$21.91 per share and a December 31, 2009 net asset value of \$29.28 per share along with net investment income of \$0.17 per share paid during the year. Assuming a shareholder owned the Fund for an entire year and reinvested dividends on the payable dates, the compound total return for the year was +34.61%.

The total returns for the Fund over the past five years are summarized in the table below. This table includes comparable measurements for the Russell 1000 Growth Index and the Standard and Poor's 500 (S&P 500) Stock Index. Because the Fund also owns fixed income securities, the total returns for the Barclays U.S. Aggregate Bond Index are also included in the table below:

Year	<u>Yr. Over Yr. % Returns</u>				<u>Yr. End Asset Allocation</u>		
	BIF	Russell 1000 Growth	S&P 500	Barclays. U.S. Aggregate Bond Index	Year	% Equities	% Fixed
2009	34.61	37.21	26.46	5.93	2009	91.8	8.2
2008	-35.47	-38.44	-37.00	5.24	2008	90.4	9.6
2007	4.72	11.81	5.49	6.97	2007	89.1	10.9
2006	1.96	9.07	15.79	4.33	2006	93.0	7.0
2005	5.99	5.26	4.91	2.43	2005	94.1	5.9

<u>As of 12/31/09</u>	<u>BIF</u>	<u>Russell 1000 Growth</u>	<u>S&amp;P 500</u>	<u>Barclays Agg.Index</u>
One year compounded % annualized total return:	34.61	37.21	26.46	5.93
Three year compounded % annualized total return:	-3.11	-1.89	-5.63	6.03
Five year compounded % annualized total return:	-0.34	1.63	0.42	4.97
Ten year compounded % annualized total return:	-2.77	-3.99	-0.95	6.33
Gross Expense Ratio:	0.81%			

*Performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and the principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the Fund may be lower or higher than the performance stated above. Performance data current to the most recent month end may be obtained by calling 866-934-4700.*

The following table summarizes the performance of the Fund's largest ten common stock holdings at year end 2009:

<u>(2009 Results of the Fund's Top Ten Common Stocks)</u>											
No. of Shares	Company Name	12/31/2009 Market Value	% of Equities	% of Total Assets	Tot Rtn % Chg QTD	Tot Rtn % Chg 12 Mos	EPS 5 Yr Hist Gr Rate	EPS % Chg 09 vs 08	P/E 2009	P/E 2010	EPS LT Future Gr Rate
12,000	Mastercard	\$3,071,760	4.6%	4.6%	27%	80%	-	26%	22.4	18.9	19%
13,000	Apple	2,741,180	4.1%	4.1%	14%	147%	45%	17%	33.6	27.0	18%
4,250	Google	2,634,915	3.9%	3.9%	25%	102%	-	17%	27.2	23.5	18%
25,000	Express Scripts	2,161,250	3.2%	3.2%	11%	57%	32%	10%	25.1	18.3	20%
20,000	Apache	2,063,400	3.1%	3.1%	13%	39%	8%	-51%	18.7	10.7	8%
52,000	Capital One Fin'l	1,993,680	3.0%	3.0%	7%	22%	-30%	-85%	129.1	19.5	11%
50,000	Best Buy	1,973,000	2.9%	2.9%	6%	43%	9%	-10%	13.7	12.8	13%
40,000	Qualcomm	1,850,400	2.8%	2.7%	3%	31%	10%	-35%	31.7	20.6	16%
60,000	Wells Fargo	1,619,400	2.4%	2.4%	-4%	-7%	0%	-14%	16.1	14.5	10%
25,000	Union Pacific	<u>1,597,500</u>	<u>2.4%</u>	<u>2.4%</u>	10%	36%	26%	-21%	18.0	15.2	13%
		\$21,706,485	32.2%	32.2%							
Total Equities		\$61,853,298		91.8%							
Total Net Assets		\$67,365,829									

**Past performance is no guarantee of future results.**

(1) Earnings per share (EPS)

Earnings per share EPS is calculated by taking the total earnings divided by the number of shares outstanding. The sources of earnings per share for these calculations were actual numbers when available, and estimates in all other instances, from BASELINE Financial Services.

(2) Price to Earnings (P/E) Ratio

The Price to Earnings Ratio reflects the multiple of earnings at which a stock sells and is calculated by dividing current price of the stock by the company's trailing 12 months' earnings per share.

**Review of 2009 and Outlook for 2010**

After suffering one of the worst years in decades in 2008, the U.S. stock market posted strong returns in 2009, as economic and capital markets conditions stabilized. Stocks reached bear market lows on March 9, at which point the S&P 500 was down 25% for the year and 57% from its October 9, 2007 all time high. The S&P 500 rallied 65% from March 9 through the end of the year, resulting in a total return for 2009 of 26.47%, its best year since 2003.

The market's strong recovery over the last 10 months of 2009 was based on 1) a stabilization of economic conditions, which, while not strong, were at least by mid-year not getting worse in the wake of the economic meltdown of the second half of 2008; 2) an end to the indiscriminate selling of stocks that characterized the first two months of the year and resulted in extremely low valuations; and 3) a willingness of investors to begin to position capital in risky securities.

The sharp rally in the stock market during the second half of the year eliminated much of the significant undervaluation that existed in equities during the first quarter of 2009. At present, stocks appear to still be attractive, assuming a continuation of improvement in the economy and an ongoing return to more normal equity valuation levels.

Current consensus estimates for the S&P 500 are for earnings of \$75-80 for 2010, and \$90-95 per share for 2011, versus about \$58 for 2009. At a level of 1140, the S&P 500 enters 2010 trading at about 15x estimated 2010 earnings, up from less than 10x in March of 2009, but still below the average multiple of earnings of 18x over the past 15 years. If the S&P 500 trades at the same multiple of earnings at year end 2010 (15x) as it does now, and consensus 2011 S&P 500 earnings remain at \$90-\$95 per share, then the S&P would end 2010 at approximately 1350-1425.

There remain significant risks for investors to consider. The economy remains relatively weak, and many consumers remain over-leveraged. Inflation may be a risk given the enormity of the stimulus initiatives brought to bear on the economy in late 2008 and early 2009, and the magnitude of both public and private debt levels. The dollar has been weak, and rising interest rates may be perceived by some investors as an obstacle to higher equity valuations despite improving earnings (we do not share this view – we do not believe higher rates should negatively impact equity valuations until yields on the 10 year Treasury reach 5% - they are currently at 3.75%).

Notwithstanding the foregoing risks, we remain constructive on the outlook for stocks over the next several years, because we believe 1) valuations remain reasonable (both absolutely, and relative to the outlook for bond returns) and 2) it is probable that the economic and corporate earnings progress evident in the second half of 2009 will continue into 2010.

## Our Portfolio

Our portfolio continues to be comprised largely of companies which we feel have strong balance sheets, high levels of profitability, and the wherewithal to grow shareholder value over time through a range of economic conditions.

During 2009, we added seven new holdings to the Fund: Caterpillar, Dolby Labs, GameStop, Hewlett Packard, JP Morgan, Microsoft, and Priceline.com. We eliminated eight positions: American Express, Anadarko Petroleum, Emerson Electric, Jacobs Engineering, McGraw-Hill, MEMC Electronics, Nokia, and Ritchie Brothers.

The Fund's equities had a strong year during 2009. The holdings that added the most value to the Fund's return in 2009 included Alcon, Apache, Apple, Chesapeake Energy, CME Group, Express Scripts, Goldman Sachs, Google, and MasterCard.

The stocks that were the largest drag on the Fund's performance during 2009 included Berkshire Hathaway, Chevron, First National, GameStop, Gilead Sciences, PepsiCo, Strayer Education, and Wells Fargo.

We believe that all of the underperformers remain very attractive going forward, because they have strong business franchises, and they trade at very absolute and relative valuations. Those companies with financial services exposure – Berkshire, First National, and Wells Fargo, should experience strong earnings recovery over the next several years as the economy improves. Gilead, PepsiCo and Strayer all showed good earnings progress despite challenging economic conditions in 2009; we believe their stocks lagged the broader market as investors sought companies with greater economic sensitivity as the year wore on and the likelihood of economic recovery increased.

As the economy recovers, we will continue to balance the opportunities presented us to own what we believe are high quality companies with relatively consistent growth characteristics and very attractive valuations against the return potential of somewhat more economically sensitive companies that have the potential for faster near term earnings growth because of their exposure to an improving economy. While we are generally more comfortable owning the consistent growers for the long run, and their valuations appear to be more attractive at present, it is possible that some companies with higher levels of operating leverage could be superior performers in the intermediate term because cost cutting implemented over the past two years during the recession may lead to upside earnings surprises.

In 2009, we thought of most of the companies in the Fund's portfolio as falling into one of two broad thematic categories: 1) high quality, strong franchise, consistent growth, free cash flow generators, and/or 2) good quality, relatively economically sensitive market leaders. Examples of each type of company are shown below; some companies have attributes in both categories:

### High Quality Franchise

Abbott Labs  
Allergan  
Express Scripts  
Gilead  
MasterCard  
Microsoft  
PepsiCo  
Procter & Gamble  
Strayer  
Teva Pharmaceutical

### Hybrid

Apple  
Berkshire Hathaway  
Best Buy  
CME  
Goldman Sachs  
Qualcomm  
Target  
Wells Fargo

### Economically Sensitive

Apache  
Caterpillar  
Chesapeake Energy  
FedEx  
Fluor  
General Electric  
Potash  
Roper  
Union Pacific

We believe the Fund's portfolio is very attractively valued looking out over the next several years. At present, the Fund's portfolio trades at 15.5x estimated 2010 earnings, and has a projected long term earnings growth rate of 10-12% annually. This compares favorably with the S&P 500's 15.0x P/E and its consensus long term earnings growth rate of 5-7%.

While the large price gains in many of the portfolio's holdings in 2009 worked off much of the gross level of undervaluation that existed a year ago, we believe that the Fund's companies are well positioned to grow shareholder value at attractive rates in the future.

We are of the opinion that the companies in our portfolio have strong balance sheets, long track records of generating above average financial performance for shareholders, attractive valuation characteristics, and good prospects for growing their business value over time.

We will continue to focus on owning in the Fund those companies with the best combination of strong business franchises, good growth prospects and attractive valuation metrics. We anticipate using interim periods of market weakness to upgrade the portfolio's quality and exposure to companies that can show good earnings growth in a challenging global economic environment, but one that is likely to show improvement on balance over the next several years.

We appreciate your investment in the Fund and welcome any questions you may have about the portfolio.

Sincerely,

Edson L. Bridges III, CFA  
President and Chief Executive Officer

**Must be preceded or accompanied by a current prospectus.**

Free cash flow is revenue less operating expenses including interest expense and maintenance capital spending. It is the discretionary cash that a company has after all expenses and is available for purposes such as dividend payments, investing back into the business or share repurchases.

**Mutual fund investing involves risk. Principal loss is possible. Small and medium capitalization companies tend to have limited liquidity and greater price volatility than large capitalization companies. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Growth stocks typically are more volatile than value stocks; however, value stocks have a lower expected growth rate in earnings and sales.**

Fund holdings and sector allocations are subject to change at any time and are not recommendations to buy or sell any security. [Click here for fund holdings.](#)

The S&P 500 Index is a broadly based unmanaged composite of 500 stocks which is widely recognized as representative of price changes for the U.S. equity market in general. The Russell 1000 Growth Index is an unmanaged composite of stocks that measures the performance of stocks of companies with higher price-to-book ratios and higher forecasted growth values from a universe of the 1,000 largest U.S. companies based on total market capitalization. The Barclays U.S. Aggregate Bond Index is a market capitalization weighted index of investment grade fixed rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities, with maturities of at least one year. You cannot invest directly in an index.

The Bridges Investment Fund is distributed by Quasar Distributors, LLC.