

FLAHERTY & CRUMRINE TOTAL RETURN FUND INC
Form N-Q
October 29, 2014

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 811-21380

Flaherty & Crumrine Total Return Fund Incorporated

(Exact name of registrant as specified in charter)

301 E. Colorado Boulevard, Suite 720

Pasadena, CA 91101

(Address of principal executive offices) (Zip code)

Donald F. Crumrine

Flaherty & Crumrine Incorporated

301 E. Colorado Boulevard, Suite 720

Pasadena, CA 91101

(Name and address of agent for service)

Registrant's telephone number, including area code: 626-795-7300

Date of fiscal year end: November 30

Date of reporting period: August 31, 2014

Form N-Q is to be used by management investment companies, other than small business investment companies registered on Form N-5 (§§ 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

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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. § 3507.

Item 1. Schedule of Investments.

The Schedule(s) of Investments is attached herewith.

FLAHERTY & CRUMRINE TOTAL RETURN FUND

To the Shareholders of Flaherty & Crumrine Total Return Fund (FLC):

Your Fund performed well during its third fiscal quarter¹, delivering +3.6% total return on net asset value². For the first nine months of fiscal 2014, the Fund's return on NAV was an impressive +15.6%. While third quarter *market* performance was +1.0%, year-to-date market performance was +17.5% at August 31st.

U.S. economic growth appears to be running around 3% currently, after averaging just 1.3% in 2014's first half. Job growth is up, unemployment is down and inflation remains low. The Fed is not filling its monetary punch bowl as quickly as before, but, while it's always hard to predict what the Fed will do, it probably won't start to raise short-term interest rates until mid-2015 or later. In contrast, economic growth abroad has slowed, with most developed countries trailing the U.S. recovery and monetary policy in many of those countries is easing further.

Although long-term interest rates in the U.S. will probably rise modestly over coming quarters, we think any upward movement will be limited by moderate GDP growth and strong investor demand for yield. Credit conditions continue to improve for most issuers of preferred securities, as earnings remain healthy and companies continue to build capital. With this backdrop, we believe prospective returns remain attractive for long-term investors.

The Fund's portfolio benefited from small declines in intermediate and long-term interest rates during the quarter, as well as on-going demand for higher yields of preferred securities. Supply of new issues remains steady—a key measure of market health. From December 2013 through September 2014, U.S. and foreign companies issued 103 new securities in the United States, raising just under \$64 billion. Over the same period, issuers redeemed 67 preferred securities totaling \$25 billion.

New issue supply was dominated by banks tailoring their capital to meet new regulatory requirements. Large U.S. banks (those deemed to be a systemically important financial institution, or SIFI) have issued traditional non-cumulative perpetual preferred stock. Non-U.S. SIFI banks are utilizing a preferred stock variation termed Contingent Convertible Securities, or CoCos. As you know from prior letters, the Fund has not yet purchased any CoCos, but we continue to evaluate them as potential investments.

With foreign economies lagging recovery in the U.S. and foreign banks issuing securities we have not yet been inclined to buy, the portion of the portfolio invested in foreign securities has drifted lower this fiscal year. Through September 30th, this portion declined from 25.2% of the portfolio to 17%. We anticipate this rate could fall further through more issuer redemptions.

As we discussed last quarter, another portfolio trend is a continued shift to fixed-to-float securities. These have coupons that are *fixed* for an initial period, typically five or ten years. Afterwards, coupons *float* based on a formula set at issuance. Prices on floating rate issues typically are less sensitive to changes in benchmark interest rates; this effect has spilled over to fixed-to-float preferred securities as well. If long-term interest rates begin to rise, as we expect they will eventually, these securities should tend to outperform.

¹ June 1, 2014 – August 31, 2014

² Following methodology required by the SEC, total return assumes dividend reinvestment and includes income and principal change, plus the impact of the Fund's leverage and expenses.

issues with fixed-for-life coupons, all other things being equal. This fiscal year through September 30th, the portion of the portfolio in this structure increased from 43.7% to 52.8%. We continue to look for opportunities to add fixed-to-float holdings. Although these issues yield a bit less than many fixed-for-life securities, and thus may reduce portfolio income at the margin, we believe owning fixed-to-float securities is prudent and consistent with our interest-rate outlook.

As always, we encourage you to visit the Fund's website, www.preferredincome.com, for current information on preferred-securities markets, the Fund and the broader economy.

Sincerely,

The Flaherty & Crumrine Portfolio Management Team:

R. Eric Chadwick

Donald F. Crumrine

Robert M. Ettinger

Bradford S. Stone

October 1, 2014

Flaherty & Crumrine Total Return Fund Incorporated

PORTFOLIO OVERVIEW**August 31, 2014 (Unaudited)****Fund Statistics**

Net Asset Value	\$	21.14
Market Price	\$	19.95
Discount		5.63%
Yield on Market Price		8.18%
Common Stock Shares Outstanding		9,900,625

Moody's Ratings***% of Net Assets**

A	2.1%
BBB	57.4%
BB	31.0%
Below BB	2.2%
Not Rated**	6.2%
Below Investment Grade***	19.6%

* Ratings are from Moody's Investors Service, Inc. Not Rated securities are those with no ratings available from Moody's.

** Does not include net other assets and liabilities of 1.1%.

*** Below investment grade by all of Moody's, S&P and Fitch.

Industry Categories**% of Net Assets****Top 10 Holdings by Issuer****% of Net Assets**

Liberty Mutual Group	5.3%
JPMorgan Chase	4.7%
MetLife	4.4%
HSBC PLC	4.1%
Wells Fargo & Company	4.0%
Fifth Third Bancorp	3.9%
M&T Bank Corporation	3.7%
Banco Santander, S.A.	3.6%

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Axis Capital Holdings Ltd	3.1%
Citigroup	2.6%
	% of Net Assets***
Holdings Generating Qualified Dividend Income (QDI) for Individuals	58%
Holdings Generating Income Eligible for the Corporate Dividend Received Deduction (DRD)	43%

*** This does not reflect year-end results or actual tax categorization of Fund distributions. These percentages can, and do, change, perhaps significantly, depending on market conditions. Investors should consult their tax advisor regarding their personal situation.
Net Assets includes assets attributable to the use of leverage.

Flaherty & Crumrine Total Return Fund Incorporated

PORTFOLIO OF INVESTMENTS**August 31, 2014 (Unaudited)**

Shares/\$ Par		Value	
Preferred Securities 93.7%			
Banking 44.7%			
6,700	Astoria Financial Corp., 6.50% Pfd., Series C	\$ 164,360	*
439,755	Banco Santander, 10.50% Pfd., Series 10	11,302,363	**(3)
Barclays Bank PLC:			
81,750	Barclays Bank PLC, 7.10% Pfd.	2,098,522	**(3)
8,800	Barclays Bank PLC, 7.75% Pfd., Series 4	227,216	**(3)
130,500	Barclays Bank PLC, 8.125% Pfd., Series 5	3,382,560	**(1)(3)
Citigroup:			
144,400	Citigroup, Inc., 6.875% Pfd., Series K	3,909,269	*(1)(2)
155,338	Citigroup, Inc., 7.125% Pfd., Series J	4,324,610	*(1)(2)
32,000	City National Corporation, 6.75% Pfd., Series D	896,640	*
CoBank ACB:			
19,000	CoBank ACB, 6.125% Pfd., Series G, 144A****	1,736,720	*
25,000	CoBank ACB, 6.25% Pfd., 144A****	2,602,345	*(1)
\$ 10,000,000	Colonial BancGroup, 7.114%, 144A****	15,000	(4)(5)
30,500	Cullen/Frost Bankers, Inc., 5.375% Pfd., Series A	743,438	*
441,269	Fifth Third Bancorp, 6.625% Pfd., Series I	12,113,496	*(1)
First Horizon:			
875	First Tennessee Bank, Adj. Rate Pfd., 3.75% ⁽⁶⁾ , 144A****	648,238	*
3	FT Real Estate Securities Company, 9.50% Pfd., 144A****	4,057,500	
140,750	First Niagara Financial Group, Inc., 8.625% Pfd.	4,005,956	*(1)
12,137	First Republic Bank, 6.70% Pfd.	318,627	*
Goldman Sachs Group:			
\$ 390,000	Goldman Sachs, 5.70%, Series L	404,585	*
60,000	Goldman Sachs, 6.375% Pfd., Series K	1,559,400	*
HSBC PLC:			
\$ 1,400,000	HSBC Capital Funding LP, 10.176%, 144A****	2,107,000	(1)(3)
200,000	HSBC Holdings PLC, 8.00% Pfd., Series 2	5,380,500	**(1)(3)
\$ 200,000	HSBC USA Capital Trust I, 7.808% 12/15/26, 144A****	202,470	
\$ 275,000	HSBC USA Capital Trust II, 8.38% 05/15/27, 144A****	278,662	(1)
59,109	HSBC USA, Inc., 6.50% Pfd., Series H	1,510,974	*(1)
ING Groep NV:			
30,000	ING Groep NV, 6.375% Pfd.	760,800	**(3)
50,000	ING Groep NV, 7.05% Pfd.	1,285,075	**(3)
31,425	ING Groep NV, 7.20% Pfd.	810,812	**(3)
57,500	ING Groep NV, 7.375% Pfd.	1,492,125	**(3)

Flaherty & Crumrine Total Return Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

August 31, 2014 (Unaudited)

Shares/\$ Par		Value	
Preferred Securities (Continued)			
Banking (Continued)			
JPMorgan Chase:			
\$ 750,000	JPMorgan Chase & Company, 6.00%, Series R	\$ 772,875	*
69,200	JPMorgan Chase & Company, 6.70% Pfd., Series T	1,786,052	*(1)(2)
\$ 4,113,000	JPMorgan Chase & Company, 6.75%, Series S	4,436,899	*(1)(2)
\$ 7,000,000	JPMorgan Chase & Company, 7.90%, Series I	7,778,750	*(1)
\$ 1,000,000	Lloyds Banking Group PLC, 6.657%, 144A****	1,097,500	** ⁽³⁾
M&T Bank Corporation:			
\$ 3,500,000	M&T Bank Corporation, 6.450%, Series E	3,780,000	*(1)(2)
\$ 7,648,000	M&T Bank Corporation, 6.875%, Series D, 144A****	7,846,443	*(1)(2)
Morgan Stanley:			
40,000	Morgan Stanley, 6.875% Pfd., Series F	1,080,400	*(1)
86,900	Morgan Stanley, 7.125% Pfd., Series E	2,429,854	*(1)(2)
228,045	PNC Financial Services Group, Inc. ,6.125% Pfd., Series P	6,321,134	*(1)
\$ 2,515,000	RaboBank Nederland, 11.00%, 144A****	3,338,662	(1)(3)
Royal Bank of Scotland:			
5,000	Royal Bank of Scotland Group PLC, 6.40% Pfd., Series M	124,450	** ⁽³⁾
10,000	Royal Bank of Scotland Group PLC, 6.60% Pfd., Series S	250,300	** ⁽³⁾
97,100	Royal Bank of Scotland Group PLC, 7.25% Pfd., Series T	2,493,528	** ⁽³⁾
3,000	Sovereign REIT, 12.00% Pfd., Series A, 144A****	4,029,852	
157,400	State Street Corporation., 5.90% Pfd., Series D	4,105,386	*(1)
63,000	US Bancorp, 6.50% Pfd., Series F	1,840,955	*
Wells Fargo:			
81,100	Wells Fargo & Company, 5.85% Pfd.	2,118,738	*
106,200	Wells Fargo & Company, 6.625% Pfd., Series R	2,988,468	*(1)
\$ 1,458,000	Wells Fargo & Company, 7.98%, Series K	1,654,830	*
198,700	Wells Fargo & Company, 8.00% Pfd., Series J	5,861,650	*(1)
Zions Bancorporation:			
5,000	Zions Bancorporation, 6.30% Pfd., Series G	129,688	*
\$ 1,500,000	Zions Bancorporation, 7.20%, Series J	1,589,550	*(1)
125,000	Zions Bancorporation, 7.90% Pfd., Series F	3,500,000	*(1)
		139,695,227	

Flaherty & Crumrine Total Return Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

August 31, 2014 (Unaudited)

Shares/\$ Par		Value	
Preferred Securities (Continued)			
Financial Services 1.9%			
\$ 2,300,000	General Electric Capital Corp., 7.125%, Series A	\$ 2,715,281	*(1)
HSBC PLC:			
128,497	HSBC Finance Corporation, 6.36% Pfd., Series B	3,230,607*	
		5,945,888	
Insurance 24.1%			
Ace Ltd.:			
\$ 1,550,000	Ace Capital Trust II, 9.70% 04/01/30	2,286,250	(1)(2)(3)
54,900	Allstate Corp., 6.625% Pfd., Series E	1,438,462	*(1)
\$ 1,875,000	Aon Corporation, 8.205% 01/01/27	2,413,639	(1)(2)
80,000	Arch Capital Group, Ltd., 6.75% Pfd., Series C	2,153,000	**(1)(3)
10,000	Aspen Insurance Holdings Ltd., 5.95% Pfd.	258,900	**(3)
AXA SA:			
\$ 620,000	AXA SA, 6.379%, 144A****	675,800	**(1)(2)(3)
\$ 500,000	AXA SA, 8.60% 12/15/30	677,190	(3)
358,650	Axis Capital Holdings Ltd., 6.875% Pfd., Series C	9,705,966	**(1)(3)
160,000	Delphi Financial Group, 7.376% Pfd., 05/15/37	4,010,000	(1)(2)
39,000	Endurance Specialty Holdings, 7.50% Pfd., Series B	1,026,188	**(3)
\$ 5,289,000	Everest Re Holdings, 6.60% 05/15/37		