FLAHERTY & CRUMRINE TOTAL RETURN FUND INC
Form N-Q
April 28, 2016

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)

R. Eric Chadwick

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: February 29, 2016

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 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):

Increased volatility was a common theme in most markets during the first fiscal quarter[1], and the preferred securities market was no exception. Total return[2] on net asset value (NAV) was -2.6% for the quarter, while total return on market price was 4.9%.

As we mentioned in our last letter, markets entered a new phase with liftoff in December. The Federal Reserve s 0.25% hike in short-term interest rates was its first step in slowly removing unprecedented levels of monetary accommodation. However, other parts of the world, notably Europe and Japan, are still easing monetary policy by increasing quantitative easing (QE) programs and pushing short-term interest rates into negative territory. With concerns over economic growth in China adding to the equation, investors are struggling to figure out how all the pieces fit together going forward. Understandably, markets are factoring in a possibility of policy mistakes along the way, as these are uncharted territories for everyone. The result has been increased volatility in most markets, including commodities (oil, natural gas, and metals), stocks, U.S. Treasuries, corporate bonds, and preferred securities.

Reduced probabilities for future rate increases in the U.S., and negative rates in some regions, triggered an absolute rout in bank common stocks with the average U.S. bank stock returning -20% during the fiscal period. Preferred securities fared much better but cheapened in sympathy (as did more-senior bank securities). Bank earnings should benefit from higher interest rates, but any upside to future earnings that investors had been hoping for (and pricing into stock prices) has been scaled back from earlier projections.

European bank common stocks were among the worst performers, and this had a related impact on the contingent capital securities market (these CoCos are the non-U.S. version of preferreds). Deutsche Bank was in the headlines yet again this time with concerns about its ability to pay coupons on CoCos and preferred securities. The market reacted very negatively, and CoCo prices were dragged down substantially across the board. Once again, U.S. preferreds fared better but still cheapened in sympathy.

There is a lot for investors in all markets to consider, but as it relates to preferreds, we suggest taking a step back to reflect on a longer-term view of favorable fundamentals.

Bank earnings are certainly important to investors, since dividends are paid out of earnings and profits. However, *growth* in earnings, while critical to common stock valuation, is *not* a critical determinant of creditworthiness and preferred-stock valuation. We focus much more on a bank s capital on its ability to absorb losses while still being able to pay preferred dividends than on earnings growth. On this front, the news is positive as the common equity capital at banks in which we invest continues to build, which supports debt and preferred stock that are senior to common equity.

[1] December 1, 2015 February 29, 2016
[2] Following the methodology required by the Securities and Exchange Commission, total return assumes dividend reinvestment.

Low interest rates will have mixed implications for both issuers of and investors in preferred securities, but overall they should benefit prices of preferred securities as a global search for yield continues. We also believe recent concerns around CoCos (which represented 1.6% of the Fund as of period end) will turn out to be noise, as issuers and regulators consider CoCos a necessary market that they are loath to damage by not paying coupons.

Global economic recovery will be slow, and policy mistakes are likely to be made. As we have said before, income (coupons) can make up for quite a bit of principal change over time and preferreds continue to offer higher yields than many other fixed-income securities. While volatility may be with us for some time, and the ride may be bumpy, we believe total returns will be competitive over time for preferred investors.

As always, we encourage you to visit the Fund s website www.preferredincome.com for timely and important information.

Sincerely,

The Flaherty & Crumrine Portfolio Management Team

March 31, 2016

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Flaherty & Crumrine Total Return Fund Incorporated

PORTFOLIO OVERVIEW

February 29, 2016 (Unaudited)

Fund Statistics

Net Asset Value	$ 19.43
Market Price	$ 19.96
Premium	2.73%
Yield on Market Price	8.18%
Common Stock Shares Outstanding	9,906,353

Moody s Ratings*	**% of Net Assets**
A	1.5%
BBB	67.9%
BB	20.5%
Below BB	1.0%
Not Rated**	6.8%
Below Investment Grade***	22.0%

* 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 2.3%.
*** 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	5.5%
JPMorgan Chase	4.9%
HSBC PLC	4.7%
Wells Fargo & Company	4.3%
MetLife	4.1%
M&T Bank Corporation	3.8%

Fifth Third Bancorp	3.8%
PNC Financial Services Group	3.8%
Citigroup	3.3%
Axis Capital Holdings Ltd	3.0%

	% of Net Assets****
Holdings Generating Qualified Dividend Income (QDI) for Individuals	60%
Holdings Generating Income Eligible for the Corporate Dividends Received Deduction (DRD)	47%

**** 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

February 29, 2016 (Unaudited)

Shares/$ Par		Value
Preferred Securities 92.5%		
	Banking 48.6%	
6,700	Astoria Financial Corp., 6.50%, Series C	$ 174,619*
$ 5,530,000	Bank of America Corporation, 8.00%, Series K	5,536,913*[1]
	Barclays Bank PLC:	
81,750	7.10%, Series 3	2,043,750**[3]
8,800	7.75%, Series 4	224,224**[3]
121,112	8.125%, Series 5	3,107,734**[1][3]
$ 5,100,000	BNP Paribas, 7.375%, 144A****	4,774,875**[3]
6,100	Capital One Financial Corporation, 6.70%, Series D	162,031*
	Citigroup, Inc.:	
214,568	6.875%, Series K	5,712,873*[1]
155,338	7.125%, Series J	4,140,736*[1]
	CoBank ACB:	
19,000	6.125%, Series G, 144A****	1,800,845*
10,000	6.20%, Series H, 144A****	1,003,125*
25,000	6.25%, Series F, 144A****	2,578,125*[1]
$ 10,000,000	Colonial BancGroup, 7.114%, 144A****	15,000[4][5]
17,939	Cullen/Frost Bankers, Inc., 5.375%, Series A	443,431*
400,125	Fifth Third Bancorp, 6.625%, Series I	11,341,063*[1]
	First Horizon National Corporation:	
875	First Tennessee Bank, Adj. Rate, 3.75%[6], 144A****	583,160*
3	FT Real Estate Securities Company, 9.50%, 144A****	3,907,500
140,750	First Niagara Financial Group, Inc., 8.625%, Series B	3,721,078*[1]
24,645	First Republic Bank, 6.70%, Series A	651,552*
	Goldman Sachs Group:	
$ 390,000	5.70%, Series L	373,912*
60,000	6.375%, Series K	1,594,800*[1]
	HSBC PLC:	
$ 1,400,000	HSBC Capital Funding LP, 10.176%, 144A****	2,032,030[1][2][3]
189,000	HSBC Holdings PLC, 8.00%, Series 2	4,860,853**[1][3]
154,391	HSBC USA, Inc., 6.50%, Series H	3,874,257*[1]
	ING Groep NV:	
30,000	6.375%	753,000**[3]
50,000	7.05%	1,295,315**[3]
31,425	7.20%	819,014**[3]

Flaherty & Crumrine Total Return Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

February 29, 2016 (Unaudited)

Shares/$ Par		Value
Preferred Securities (Continued)		
	Banking (Continued)	
	JPMorgan Chase & Company:	
$ 750,000	6.00%, Series R	$ 744,375*
61,469	6.70%, Series T	1,670,113*(1)
$ 4,791,000	6.75%, Series S	5,084,449*(1)
$ 7,000,000	7.90%, Series I	6,991,250*(1)
	M&T Bank Corporation:	
$ 3,500,000	6.450%, Series E	3,692,500*(1)
$ 7,648,000	6.875%, Series D, 144A****	7,681,651*(1)
	Morgan Stanley:	
85,000	6.875%, Series F	2,296,700*(1)
86,900	7.125%, Series E	2,446,782*(1)
	PNC Financial Services Group, Inc.:	
277,045	6.125%, Series P	7,861,152*(1)
$ 3,150,000	6.75%, Series O	3,373,650*(1)
$ 2,515,000	RaboBank Nederland, 11.00%, 144A****	2,977,659(1)(2)(3)
	Royal Bank of Scotland Group PLC:	
10,000	6.60%, Series S	242,700**(3)
89,774	7.25%, Series T	2,251,532**(3)
	Sovereign Bancorp:	
3,000	Sovereign REIT, 12.00%, Series A, 144A****	3,761,250
157,400	State Street Corporation, 5.90%, Series D	4,151,425*(1)
63,000	US Bancorp, 6.50%, Series F	1,825,034*(1)
86,400	Webster Financial Corporation, 6.40%, Series E	2,246,400*
	Wells Fargo & Company:	
81,100	5.85%, Series Q	2,075,657*(1)
$ 1,250,000	5.875%, Series U	1,325,062*(1)(2)
106,200	6.625%, Series R	3,023,514*(1)
$ 1,458,000	7.98%, Series K	1,501,740*(1)
169,700	8.00%, Series J	4,740,994*(1)
	Zions Bancorporation:	
5,000	6.30%, Series G	125,312*
$ 1,500,000	7.20%, Series J	1,533,750*(1)
125,000	7.90%, Series F	3,310,000*(1)
		144,460,466

Flaherty & Crumrine Total Return Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

February 29, 2016 (Unaudited)

Shares/$ Par		**Value**
Preferred Securities (Continued)		
	Financial Services 1.1%	
	HSBC PLC:	
128,497	HSBC Finance Corporation, 6.36%, Series B	$ 3,220,456*(1)
		3,220,456
	Insurance 24.7%	
146,144	Allstate Corp., 6.625%, Series E	4,023,534*(1)
$ 1,875,000	Aon Corporation, 8.205% 01/01/27	2,282,813(1)(2)
80,000	Arch Capital Group, Ltd., 6.75%, Series C	