FLAHERTY & CRUMRINE/CLAYMORE TOTAL RETURN FUND INC
Form N-CSR
January 27, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM N-CSR
CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES
Investment Company Act file number 811-21380
Flaherty & Crumrine/Claymore 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: November 30, 2011

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR 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 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.

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Item 1. Reports to Stockholders.

The Report to Shareholders is attached herewith.

FLAHERTY & CRUMRINE/CLAYMORE TOTAL RETURN FUND

To the Shareholders of Flaherty & Crumrine/Claymore Total Return Fund:

We begin with some good news the Fund ended the fiscal year with a bit of extra income, so shareholders of record on December 22, 2011 received a special one-time distribution of $0.055 per share. This was in addition to the regular monthly dividend of $0.1395 per share.

During the fourth fiscal quarter of 2011[1], total return on net asset value[2] of the Fund was -1.3%; the return for the full fiscal year was +7.3%. Total return based on market price of Fund shares for the comparable periods was +1.6% and +11.4% respectively. The table below presents these and other performance measures of interest to investors.

TOTAL RETURN ON NET ASSET VALUE
FOR PERIODS ENDED NOVEMBER 30, 2011

	Actual Returns			Average Annualized Returns		
	Three Months	**Six Months**	**One Year**	**Three Years**	**Five Years**	**Life of Fund(1)**
Flaherty & Crumrine/Claymore Total Return Fund	-1.3%	-3.7%	7.3%	37.9%	4.4%	5.5%
Barclays Capital U.S. Aggregate Index(2)	0.8%	3.5%	5.5%	7.7%	6.1%	5.5%
S&P 500 Index(3)	2.9%	-6.3%	7.8%	14.1%	-0.2%	4.8%

(1) Since inception on August 26, 2003.

(2) The Barclays Capital U.S. Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. It is generally considered to be representative of the domestic, investment-grade, fixed-rate, taxable bond market. Unless otherwise noted, index returns reflect the reinvestment of dividends and capital gains, if any, but do not reflect fees, brokerage commissions or other expenses of investing. This index was formerly known as the Lehman Brothers U.S. Aggregate Index.

(3) The S&P 500 is a capitalization-weighted index of 500 common stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Current performance may be lower or higher than the quoted past performance, which cannot guarantee future results. In addition, NAV performance will vary from market price performance, and you may have a taxable gain or loss when you sell your shares.

Financial markets have been highly volatile in recent months, driven largely by economic jitters in Europe and the United States. As reflected in the numbers above, the market for preferred securities has also been uneven. Despite these challenging conditions, the Fund is achieving its primary objective of high current income. The monthly dividend was raised twice during the fiscal year; as of November 30th, the distribution rate stood at 9.2% based on market price of Fund shares.

1 September 1, 2011 November 30, 2011

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

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When the economic narrative of 2011 is ultimately written, it seems certain the focus will be on politics in the United States and Europe, and the terms circus and dysfunction will be prominent. We ve known sovereign debt burdens in Europe and the U.S. are not sustainable without major, politically-difficult reforms. The only question was when that day of reckoning would arrive.

In Europe, awareness of the sovereign debt crisis built slowly over the past two years, and political leaders dragged their feet during most of that time. They finally appear to have gotten serious and are quickening the pace of needed reforms, although much work remains to be done.

The U.S. is also on a risky long-term budgetary path, with political expediencies of Washington D.C. thus far taking precedence over addressing the problem. In addition, without the luxury of running large deficits, state and local governments have been dramatically cutting spending to manage their own fiscal challenges. Businesses and households, on the other hand, continue to reduce their debt burdens and are fundamentally (though not uniformly) healthy. We expect this dichotomy between an improving private sector and a deteriorating public sector to persist in 2012, which is likely to keep market volatility elevated and dampen near-term economic growth.

Prices on securities issued by European companies have been hit particularly hard. As of November 30th, 12% of the Fund s portfolio consisted of securities issued or guaranteed by banks and insurance companies based in Europe. As we ve discussed previously, each of these companies has operations throughout the world, but is tied most closely to economic conditions in the Eurozone. We believe these issuers are well capitalized and well managed, and therefore better able to handle market turbulence, but continued weakness in the Eurozone will be a challenge. Several of these positions declined in value during the quarter, contributing to the drop in NAV.

In the U.S., stocks and bonds issued by financial institutions also have been under pressure. Slow economic growth and unresolved regulatory issues continue to have investors wary of the industry. In our view, expanded in the discussion section that follows, the *credit quality* of the industry is far better than at any time in the recent past. For the foreseeable future, we believe the best opportunities in the financial sector will be found in preferred securities.

Once again we use the occasion of our annual report to dig more deeply into several topics of interest to shareholders. We hope you ll read on and learn more about your Fund, as well as our thoughts on the factors important to its outlook. In addition, we encourage you to visit the Fund s website www.fcclaymore.com for a more in-depth discussion of conditions in both preferred markets and the broader economy.

Sincerely,

Donald F. Crumrine
Chairman

Robert M. Ettinger
President

December 30, 2011

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DISCUSSION TOPICS

The Fund s Portfolio Results and Components of Total Return on NAV

The table below reflects performance over both the recent six months and the Fund s fiscal year of each element comprising total return of the Fund, namely: (a) investing in a portfolio of securities; (b) hedging that portfolio of securities against significant increases in long-term interest rates (see the following discussion on status of the Fund s interest-rate hedging strategy); and (c) utilizing leverage to enhance returns to shareholders. Next, we compute the impact of the Fund s operating expenses. All of the parts are summed to determine total return on NAV.

Components of FLC s Total Return on NAV
for the Fiscal Year Ended November 30, 2011

	*Six Months**	*One Year*
Total Return on Unleveraged Securities Portfolio (including principal and income)	-1.7%	+6.3%
Return from Interest Rate Hedging Strategy	N/A	N/A
Impact of Leverage (including leverage expense)	-1.2%	+2.4%
Expenses (excluding leverage expense)	-0.7%	-1.4%
Total Return on NAV	**-3.6%**	**+7.3%**

* Actual, not annualized.

For comparison, the following table displays returns over the same two time periods on four indices compiled by Bank of America Merrill Lynch, reflecting various segments of the preferred market. In addition, we have calculated and included a fifth measure a composite of these four indices weighted by the size of each segment. In our view, this composite represents a broad measure of the entire preferred market. Because the index returns exclude all expenses and the impact of leverage, they compare most directly to the top line in the Fund s performance table. As you can see, the Fund outperformed the composite by a substantial amount over the fiscal year, though the results have been much closer during the past six months.

Total Returns of Bank of America Merrill Lynch Preferred Securities Indices*
for Periods Ended November 30, 2011

	Six Months	*One Year*
BofA Merrill Lynch 8% Capped DRD Preferred Stock Index^{SM}	+2.0%	+8.1%
BofA Merrill Lynch 8% Capped Hybrid Preferred Securities Index^{SM}	-1.9%	+3.2%
BofA Merrill Lynch 8% Capped Corporate U.S. Capital Securities Index^{SM}	-4.1%	+1.9%
BofA Merrill Lynch Adjustable Preferred Stock, 7% Constrained Index^{SM}	-15.2%	-8.4%
Composite Preferred Market Benchmark Index	-2.4%	+3.2%

* The Bank of America Merrill Lynch 8% Capped DRD Preferred Stock Index^{SM} (P8D0) includes investment grade preferred securities issued by both corporations and government agencies that qualify for the corporate dividend received deduction with issuer concentration capped at a maximum of 8%. The Bank of America Merrill Lynch 8% Capped Hybrid Preferred Securities Index^{SM} (P8HO) includes taxable, fixed-rate, U.S. dollar-denominated investment-grade, preferred securities listed on a U.S. exchange with issuer concentration capped at 8%. The Bank of America Merrill Lynch 8% Capped Corporate U.S. Capital Securities Index^{SM}

(C8CT) includes investment grade fixed rate or fixed-to-floating rate $1,000 par securities that receive some degree of equity credit from the rating agencies or their regulators with issuer concentration capped at a maximum of 8%. The Bank of America Merrill Lynch Adjustable Preferred Stock, 7% Constrained Index[SM] (P0AC) includes adjustable rate preferred securities issued by U.S. corporations and government agencies with issuer concentration capped at a maximum of 7%. The Composite Preferred Market Benchmark Index weights the above four Bank of America Merrill

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Lynch indices by that market segment s relative size according to Flaherty & Crumrine data (42.0% P8HO, 36.0% C8CT, 18.3% P8D0, 3.7% P0AC). All index returns include interest and dividend income, and, unlike the Fund s returns, are unmanaged and do not reflect any expenses.

Total return on NAV also includes the impact of expenses and leverage (the bottom line on the Fund performance table). When compared to the market indices, we reach a similar conclusion, though the differentials are greater for both measurement periods.

Total Return on Market Price of Fund Shares

While our focus is primarily on managing the Fund s investment portfolio, our shareholders actual return is comprised of the Fund s monthly dividend payments *plus* changes in its *market price*. During the twelve months ending November 30, 2011, total return on market price of Fund shares was +11.4%.

In a perfect world, the market price of Fund shares would closely track the Fund s net asset value. As can be seen from the graph below, over the life of the Fund this often has not been the case. However, for almost all of the past year the Fund s market price has been above its NAV (in market parlance, trading at a premium). Because the Fund began fiscal 2011 with its market price at only a modest premium to NAV and ended the fiscal year well above, the total return earned on market price materially exceeded the total return on NAV shown in the first on the previous page.

Based on a closing price of $18.70 on December 30th, the current annualized yield on market price of the Fund s shares (assuming the current monthly distribution of $0.1395 does not change) is 9.0%. In our opinion, this distribution rate measures up favorably with most comparable investment opportunities.

Preferred Market Conditions

Conditions in the market for preferred securities have been mixed recently, as participants sort through a great deal of conflicting information. Improving trends in credit quality have been countered by tepid economic growth and European sovereign risk concerns. Politicians and regulators have been slow to resolve issues big and small, leaving investors with large unknowns in their decision-making processes. These uncertainties have sent many investors to the sidelines and pushed down prices of preferred securities.

Trading volumes for most preferred securities have declined recently, but by most measures the markets remain healthy. Flows tend to be lumpier, indicating an increase in institutional trades along with a drop in retail activity. Price volatility remains stubbornly high for the traditionally sleepy preferred market. We expect this will persist over the near term given current uncertainties in both macroeconomic and political environments.

New issue activity has been slow, and redemptions continue to outpace new supply. However, when new preferred securities have been issued, demand has been reasonably strong. Investors are cautious, but if an issue is structured and priced properly, demand has been high.

Looking to the future, we believe investor concerns, while real, have gone too far. U.S. economic growth has improved following surprisingly slow growth in the first half of 2011, and our outlook is for continued, though modest growth.[1] We believe the risk of deflation has receded and economic growth should return to the 2-3% range. Although that s slow for a typical recovery from recession, it should be fast enough to accommodate ongoing household and financial sector deleveraging and balance sheet improvement. It also should keep new issuance of preferred securities relatively light. We see this as a fundamentally constructive environment for preferreds.

The major risk to this outlook is the sovereign debt crisis in Europe. From our perspective as preferred investors, we see three recent painful but ultimately positive developments that represent real progress toward a comprehensive solution to the crisis in Europe. First, markets over the second half of the year lost patience with the piecemeal actions taken previously in Europe, prompting policymakers to agree in July to an expansion of the European Financial Stability Facility (EFSF). Although additional funds from the European Central Bank (ECB) or elsewhere may prove necessary, this was a major step up from previous efforts. Second, policymakers recognized that the sovereign debt crisis has also become a banking crisis, given the sizable holdings of sovereign debt at European banks. Banks that need additional capital under recent stress tests are being required to raise it in the marketplace; if they are unable to do so, member states or the EFSF will provide the capital. In addition, the ECB has both eased monetary policy and expanded its lending facilities, offering ample liquidity to European banks. Third, European Monetary Union members recently agreed to a meaningful degree of fiscal union, which should help deliver greater fiscal discipline in the future. There is still much work to do in Europe, but things are finally moving in the right direction.

In the U.S., credit trends in major sectors of the preferred market show ongoing improvement. Problem loans at banks are falling, with both new delinquencies and charge-offs declining. Earnings at banks are likely to remain under some pressure given falling net interest margins, rising costs of regulatory compliance and, for some banks, mortgage-related litigation. However, from a preferred investor s perspective, we think this will be offset by greater balance sheet strength and more-focused, lower-risk business operations.

Insurance company credit fundamentals remain healthy and business volumes generally have remained good. Property and casualty companies have had to pay sizable claims on recent natural disasters, but their balance sheets are very strong and premiums are rising. Life insurance companies are facing some earnings

[1] For a detailed explanation of our economic views, see our Fourth-Quarter U.S. Economic Update.

stress and balance-sheet volatility, but most have comfortable capital cushions and solid earnings streams that can weather those near-term headwinds.

Electric utilities have been an anchor of stability in recent years. While sales volumes are growing a little more slowly than expected, balance sheets are strong and earnings are rising modestly on incremental (but rarely transformational) capital expenditures. As preferred investors, we are satisfied with strong fixed-charge coverage and 9-10% return on equity, which is what we see at a number of utilities. Other sectors, including real estate investment trusts, pipeline, energy, and industrial companies show similar stable or improving credit profiles.

On the two major bank regulatory fronts (Dodd-Frank Wall Street Reform and Consumer Protection Act and Basel Committee on Banking Supervision), there has been only limited progress in recent months. Regulatory uncertainty has limited the amount of new issue supply in the preferred market, as banks cannot be sure that preferred stock issues sold today will qualify as Tier 1 capital in 2013 and beyond. We expect the supply pipeline to remain low until capital rules are clarified. The uncertainty, however, has not prevented issuers from redeeming certain preferred securities that are expensive in today s low-yield environment.

On balance, we expect continued improvement in credit fundamentals, partially offset and sometimes overwhelmed by nervousness over Europe. Although that probably will make for volatile markets, we still see good opportunity in preferred securities.

Bank Credit Quality and Ratings Diverge

In the aftermath of the credit crisis, the three largest nationally-recognized statistical rating organizations Moody s Investors Service, Standard & Poor s, and Fitch Ratings have lowered their ratings on preferred securities issued by banks. Although their reasoning varies (we are painting with a broad brush here), the rating agencies have cited two primary reasons for the lower ratings. First, they generally have lowered senior debt ratings on banks in recent years to reflect what they view as greater risk at these institutions and a lower likelihood that banks will receive government financial support in a crisis. Second, they often have lowered ratings on preferred securities relative to senior debt of the same issuer, in part reflecting a view that regulators will force preferred capital providers to absorb losses prior to receiving government financial support in any future crisis.

These actions have resulted in lower ratings on a number of preferred securities held in the Fund s portfolio. Although we base our investment decisions primarily on our own assessment of an issuer s creditworthiness (along with an analysis of each issue s particular terms and conditions), we still pay attention to the impact of these downgrades on the portfolio. That is because the Fund s investment guidelines incorporate ratings thresholds, and we must manage within the rating guidelines for the Fund.

This does not mean that we agree with these ratings. In particular, we believe that most U.S. banks are now considerably healthier than they were before the crisis, yet they are rated lower by the agencies. Part of that reflects agency ratings that often were too high prior to the crisis. However, we think many current bank preferred ratings underappreciate both the enormous increase in common equity capital and the lower risk profile at banks in the wake of financial reform legislation and upcoming capital requirements. For many U.S. bank preferreds today, lower agency credit ratings do not necessarily mean lower credit quality. Our job is to know which companies deserve the lower ratings and which do not.

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Monthly Distributions to Fund Shareholders

The Fund makes monthly distributions of income to shareholders consistent with its primary objective of providing high current income. Effectively, the Fund earns its income both by investing its assets in income-producing securities, such as preferred securities, and by employing leverage to borrow additional money and invest the proceeds in more income-producing securities.

This use of leverage is an important part of the Fund s strategy to produce high current income, because, over time, the cost of leverage typically is lower than the yield on the Fund s portfolio. The difference between what the Fund earns on its investments and pays on the money it borrows increases the income available to common shareholders.

This past year, leverage has had a particularly meaningful impact on the Fund s distributions. First, the Fund twice lowered the rate it paid for leverage, and for the fiscal year paid a weighted-average interest rate of 1.202% on its borrowed money (versus much higher current yields generated by the Fund s portfolio). Second, as the Fund s net asset value improved during the year, the Fund was able to increase the amount of leverage employed. Both the lowering of rates and the increase in leverage balances supported the Fund s two dividend increases during the year.

Even though it would seem to be fairly straightforward, we believe there is a bit of art involved in setting dividend policy. One approach would be for the Fund to simply pay out its net earnings each month. Because of the uneven nature of the Fund s income and expenses and, over longer stretches of time, changes in the Fund s cost of leverage this approach would likely result in distribution rates that would change frequently. This has never seemed terribly appealing to us.

We believe our shareholders are better served by a more stable level of monthly distributions. In striving for more stability, and to reflect inherent uncertainty in predicting future net earnings, in any particular month the Fund may pay out less than the amount earned for that same month; in other months, the distribution may be comprised of current month s earnings *plus* income from prior months. Nonetheless, as a general matter, the Fund tries to set dividend rates that will result in it distributing to shareholders most of the net income it earns during a year.

It is important, however, that shareholders understand the primary drivers behind dividend policy, and not confuse stable dividend with constant dividend . Broad trends in top-line portfolio income and changes in the cost of leverage (short-term rates) will require the Fund to modify the ongoing dividend rate periodically.

This year the Fund ended up with a little bit of extra income at the end of year, mainly due to timing of leverage increases relative to timing of dividend adjustments. As in the past, the Fund has decided to make a small extra distribution of $0.055 per share and to carry over a bit of income for distribution in the next fiscal-year period.

Status of the Fund s Hedging Strategy

The Fund suspended its interest rate hedging program as the financial crisis intensified in the autumn of 2008. There were three principal reasons why we stopped hedging the long-term interest rate risk of the portfolio at that time. First, the relationship between preferred securities prices and the Fund s hedging instruments (Treasury bond futures, interest rate swaps, or options on both) broke down during the financial crisis, and hedging lost its effectiveness. Second, the cost of hedging rose dramatically, as the yield curve steepened, volatility increased, and options prices rose. Finally, preferred securities became exceptionally cheap and were likely to offer high returns to shareholders even if long-term Treasury yields increased. We believed hedging simply would not work under market conditions existing at the time.

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Today, the correlation between preferred securities and our hedge instruments has improved, but it remains both weaker and significantly less stable than historical norms. A steep yield curve and high option-implied volatility continue to make hedging very expensive. And, the decline in preferred securities prices since mid-year makes them less sensitive to higher long-term Treasury or interest-rate swap yields. Although market conditions are not as extreme as they were in 2008, hedging still does not make sense to us.

We will add another reason to the above list: the lower duration (i.e., interest rate sensitivity) of the portfolio today. Changes in regulation (especially for banks) and rating agency criteria combined with a sustained low-yield environment have substantially increased the probability that certain preferred securities will be called over the next several years. This has reduced the duration of the Fund s portfolio, meaning it is less sensitive to higher long-term interest rates than it has been historically reducing the need for interest-rate hedging. That may change in the future as issuers replace called securities with new, long-duration preferreds. If the portfolio s interest rate sensitivity increases, we may be more willing to spend a bit on hedging, although the cost and anticipated effectiveness of doing so will always be important. We will continue to evaluate market conditions and the composition of the Fund s portfolio, and we may reinstate the hedge if we judge that conditions warrant it.

Federal Tax Advantages of 2011 Calendar Year Distributions

In 2011, the Fund passed on a portion of its income to individuals in the form of qualified dividend income or QDI. Under federal law, QDI is taxed at a maximum 15% rate instead of an individual s ordinary income tax rate.

In calendar year 2011, approximately 37.9% of distributions made by the Fund was eligible for QDI treatment. For an individual in the 28% marginal tax bracket, this means that the Fund s total distributions will only be taxed at a blended 23.1% rate versus the 28% rate which would apply to distributions by a fund containing traditional corporate bonds. This tax advantage means that, all other things being equal, such an individual who held 100 shares of Common Stock of the Fund for the calendar year would have had to receive approximately $181.37 in distributions from a traditional corporate bond fund to net the same after-tax amount as the $169.75 distributions paid by the Fund.

For detailed information about tax treatment of particular distributions received from the Fund, please see the Form 1099 you receive from either the Fund or your broker.

Corporate shareholders also receive a federal tax benefit from the 15.2% distributions that were eligible for the inter-corporate dividends received deduction or DRD.

It is important to remember that composition of the portfolio and income distributions can change from one year to the next, and that the QDI or DRD portions of 2012 s distributions may not be the same (or even similar) to 2011.

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INVESTMENT POLICY MODIFICATION

On February 3, 2011 the Fund announced the following changes to its investment policies. These changes were effective on April 4, 2011.

Old Policy: At time of purchase, at least 80% of the securities that the Fund will acquire will be rated investment grade by either Moody s Investors Services, Inc. (Moody s) or Standard & Poor s Corporation (S&P), or, if unrated, judged to be comparable in quality. In addition, the Fund may invest up to 20% of its assets at the time of purchase in securities rated below investment grade by both Moody s and S&P, if (a) such securities are rated at least Ba3 by Moody s or BB- by S&P and (b) such securities are issued by an issuer having an outstanding class of senior debt rated investment grade at the time of purchase. Thus, the Fund may not invest in securities rated below Ba3 by Moody s and below BB- by S&P.

New Policy: At time of purchase, at least 80% of the securities that the Fund will acquire will be rated investment grade by any one of Moody s, S&P or Fitch Ratings Group (Fitch). In addition, the Fund may invest up to 20% of its assets at the time of purchase in securities rated below investment grade by all of Moody s, S&P and Fitch, provided that (a) such securities are rated at least Ba3 by Moody s, BB- by S&P, or BB- by Fitch or (b) such securities are issued by an issuer having an outstanding class of senior debt rated investment grade by any one of Moody s, S&P, or Fitch at the time of purchase. Thus, the Fund may invest in securities rated below Ba3 by Moody s, BB- by S&P and BB- by Fitch if the issuer has investment grade senior debt outstanding.

Impact of Changes:

(1) Fitch is now one of the approved ratings agencies for determining whether a security meets the definition of investment grade for purposes of the Fund s policy of investing at least 80% of its assets in securities rated investment grade at the time of purchase or in securities of equivalent quality;

(2) The Fund may now purchase securities rated below Ba3/BB-/BB- by each of Moody s, S&P and Fitch, respectively, as long as the senior debt of the same issuer is rated investment grade by any one of Moody s, S&P or Fitch at the time of purchase; and

(3) If the senior debt of an issuer is unrated or it has no outstanding senior debt, the Fund may now purchase its preferred securities if they are rated at least Ba3/BB-/BB- by any one of Moody s, S&P or Fitch, respectively.

As a result of these changes, a security would be counted as investment grade if it had an investment grade rating by any one of Moody s, S&P or Fitch, even if the other two rating agencies rated it below investment grade. The effect of this change would be to reduce the Fund s holdings deemed below investment grade purchases, as of January 31, 2011, from 16.6% to 12.3%. In addition, the Fund would be authorized to purchase below Ba or BB securities of investment grade issuers, subject to an overall 20% limit on purchasing below investment grade securities. While this change would permit the Fund to acquire securities rated B and below, the Fund s adviser has no current intention of doing so.

As before, the Fund will apply the ratings criteria at the time of purchase and the Fund will not be required to dispose of securities if, after purchase, they are downgraded, although the adviser may take this into account in determining whether to retain the security. As a result, more than 20% of the Fund s holdings at any time may be rated below investment grade or in equivalent securities. In addition, as before, the Fund may invest in unrated securities that the Fund s investment adviser deems to be comparable in quality to rated issues in which the Fund is authorized to invest.

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Risks of Investing in Securities Rated Below Ba3/BB-

The Fund can purchase below-investment grade securities with ratings of at least Ba3 by Moody s and BB- by S&P and Fitch; such ratings generally indicate an issuer that is less vulnerable to non-payment of its obligations than other speculative issuers. The issuer, however, faces major ongoing uncertainty or exposure to adverse business, financial or economic conditions that could lead to inadequate capacity to meet its financial commitments. Under the Fund s new investment policy with respect to the investment grade rating of securities, the Fund may invest in securities with ratings below Ba3/BB- so long as the issuer of such securities has an outstanding class of senior debt rated investment grade by any one of Moody s, S&P or Fitch. Although a company s senior debt rating may be investment grade, an underlying security issued by such company in which the Fund may invest may have a lower than investment grade rating. A security with a rating below Ba3/BB- generally indicates the issuer of such security has a high degree of vulnerability of not paying its financial obligations. A security rated B1 to B3 by Moody s, or B+ to B- by S&P or Fitch, for example, indicates an issuer that is more vulnerable to not paying its obligations than a Ba3 or BB- issuer; the issuer, however, currently has the capacity to meet its financial commitments, although adverse business, financial, or economic conditions will likely impair the issuer s capacity or willingness to meet its financial commitments. Securities rated Caa by Moody s or CCC by S&P or Fitch indicate an issuer that is highly speculative and likely to be in, or very near default with some prospects of recovery of principal and interest, although the issuer is dependent upon favorable business, financial, and economic conditions to meet its financial commitments. Securities rated below Caa or CCC generally indicate an issuer that is highly vulnerable to not paying its obligations or that has defaulted on an obligation.

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Flaherty & Crumrine/Claymore Total Return Fund Incorporated
PORTFOLIO OVERVIEW
November 30, 2011 (Unaudited)

Fund Statistics	
Net Asset Value	$ 17.06
Market Price	$ 18.10
Premium	6.10%
Yield on Market Price	9.25%
Common Stock Shares Outstanding	9,832,057

Moody s Ratings	**% of Net Assets**
A	6.7%
BBB	71.9%
BB	17.0%
Below BB	1.8%
Not Rated*	0.9%
Below Investment Grade**	10.7%

* Does not include net other assets and liabilities of 1.7%

** 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	5.1%
Banco Santander, S.A.	4.5%
Capital One Financial	4.0%
Metlife	3.9%
HSBC PLC	3.3%
Georgia Power	3.0%
Enbridge Energy Partners	2.8%
Unum Group	2.8%
Wells Fargo	2.7%
Southern California Edison	2.4%

	% of Net Assets*

Holdings Generating Qualified Dividend Income (QDI) for Individuals	31%
Holdings Generating Income Eligible for the Corporate Dividends Received Deduction (DRD)	20%

*** 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. See accompanying notes to financial statements for the tax characterization of 2011 distributions.

Net Assets includes assets attributable to the use of leverage.

Flaherty & Crumrine/Claymore Total Return Fund Incorporated

PORTFOLIO OF INVESTMENTS

November 30, 2011

Shares/$ Par		Value
Preferred Securities 89.9%		
	Banking 34.4%	
	Astoria Financial:	
$ 4,850,000	Astoria Capital Trust I, 9.75% 11/01/29, Series B	$ 5,054,476(1)(2)
	Banco Bilbao Vizcaya Argentaria, S.A.:	
$ 2,050,000	BBVA International Preferred, 5.919%	1,240,250**(1)(2)(3)
	Banco Santander, S.A.:	
439,755	Banco Santander, 10.50% Pfd., Series 10	11,549,066**(1)(3)
	Bank of America:	
8,220	Bank of America Corporation, 8.20% Pfd.	181,251*
17,540	Bank of America Corporation, 8.625% Pfd.	389,388*
$ 1,000,000	BankAmerica Institutional, Series A, 8.07% 12/31/26, 144A****	925,000
25,000	Countrywide Capital V, 7.00% Pfd. 11/01/36	504,063
$ 500,000	Fleet Capital Trust II, 7.92% 12/11/26	461,250
$ 965,000	MBNA Capital, 8.278% 12/01/26, Series A	903,481
$ 2,325,000	NB Capital Trust IV, 8.25% 04/15/27	2,179,687
	Barclays Bank PLC:	
$ 3,600,000	Barclays Bank PLC, 6.278%	2,224,127**(1)(3)
1,900	Barclays Bank PLC, 7.75% Pfd., Series 4	41,230**(3)
126,900	Barclays Bank PLC, 8.125% Pfd., Series 5	2,880,630**(1)(3)
	BB&T Corp.:	
18,321	BB&T Capital Trust VI, 9.60% Pfd. 08/01/64	479,460(1)
	BNP Paribas:	
$ 3,000,000	BNP Paribas, 7.195%, 144A****	2,040,000**(1)(3)
	Capital One Financial:	
$ 8,250,000	Capital One Capital III, 7.686% 08/15/36	8,219,062(1)(2)
$ 500,000	Capital One Capital V, 10.25% 08/15/39	521,875(1)
$ 1,643,000	Capital One Capital VI, 8.875% 05/15/40	1,660,337(1)(2)
	Citigroup:	
7,050	Citigroup Capital XII, 8.50% Pfd. 03/30/40	177,741
83,300	Citigroup Capital XIII, 7.875% Pfd. 10/30/40	2,142,376(1)(2)
$ 320,000	Citigroup Capital XXI, 8.30% 12/21/57	321,600
	Colonial BancGroup:	
$ 10,000,000	Colonial BancGroup, 7.114%, 144A****	300,000(4)(5)
	FBOP Corp.:	
7,000	FBOP Corporation, Adj. Rate Pfd., 144A****	3,500*(4)(5)
	Fifth Third Bancorp.:	
$ 2,150,000	Fifth Third Capital Trust IV, 6.50% 04/15/37	2,085,500(1)
13,150	Fifth Third Capital Trust V, 7.25% Pfd. 08/15/67	329,408
133,051	Fifth Third Capital Trust VI, 7.25% Pfd. 11/15/67	3,355,387(1)

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine/Claymore Total Return Fund Incorporated
PORTFOLIO OF INVESTMENTS (Continued)
November 30, 2011

Shares/$ Par		Value
Preferred Securities (Continued)		
	Banking (Continued)	
	First Horizon:	
3,900	First Tennessee Bank, Adj. Rate Pfd., 3.75%(6), 144A****	$ 2,366,812*
3	FT Real Estate Securities Company, 9.50% Pfd., 144A****	2,865,000
	First Republic Bank:	
2,000	First Republic Preferred Capital Corporation, 10.50% Pfd., 144A****	2,075,000
	Goldman Sachs Group:	
$ 865,000	Goldman Sachs, Capital I, 6.345% 02/15/34	740,547(1)(2)
$ 881,000	Goldman Sachs, Capital II, 5.793%	570,448(1)(2)
1,500	STRIPES Custodial Receipts, Adj. Rate, 10.70%, Pvt.(6)	313,500*(4)(5)
	HSBC PLC:	
172,000	HSBC Holdings PLC, 8.00% Pfd., Series 2	4,461,938**(1)(3)
$ 1,000,000	HSBC USA Capital Trust II, 8.38% 05/15/27, 144A****	950,490(1)(2)
87,189	HSBC USA, Inc., 6.50% Pfd., Series H	2,130,681*(1)
1,828	HSBC USA, Inc., $2.8575 Pfd.	83,101*
	ING Groep NV:	
24,975	ING Groep NV, 8.50% Pfd.	542,707**(3)
16,200	ING Groep NV, 7.05% Pfd.	288,887**(3)
	JPMorgan Chase:	
$ 1,850,000	JPMorgan Chase Capital XVIII, 6.95% 08/17/36, Series R	1,868,500(1)(2)
$ 500,000	JPMorgan Chase Capital XXVII, 7.00% 11/01/39, Series AA	503,750(1)(2)
	KeyCorp:	
72,900	Keycorp Capital X, 8.00% Pfd. 03/15/68	1,864,782(1)
	Lloyds Banking Group PLC:	
$ 1,000,000	Lloyds Banking Group PLC, 6.657%, 144A****	535,000**(3)
	PNC Financial Services:	
$ 1,676,000	National City Preferred Capital Trust I, 12.00%	1,747,584
39,995	PNC Financial Services, 9.875% Pfd., Series L	1,102,362*(1)
$ 1,000,000	PNC Preferred Funding Trust III, 8.70%, 144A****	1,020,372(1)(2)
	Sovereign Bancorp:	
3,000	Sovereign REIT, 12.00% Pfd., Series A, 144A****	3,260,064
	SunTrust Banks:	
8,100	SunTrust Capital IX, 7.875% Pfd. 03/15/68	205,791
	Webster Financial:	
$ 2,800,000	Webster Capital Trust IV, 7.65% 06/15/37	2,732,943
	Wells Fargo:	
$ 600,000	First Union Capital II, 7.95% 11/15/29	625,324(1)(2)

The accompanying notes are an integral part of the financial statements.

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Flaherty & Crumrine/Claymore Total Return Fund Incorporated
PORTFOLIO OF INVESTMENTS (Continued)
November 30, 2011

Shares/$ Par		Value
Preferred Securities (Continued)		
	Banking (Continued)	
$ 1,500,000	Wachovia Capital Trust III, Adj. Rate, 5.56975% (6)	$ 1,273,125*(1)
43,526	Wachovia Preferred Funding, 7.25% Pfd., Series A	1,131,785(1)
2,325	Wells Fargo & Company, 7.50% Pfd., Series L	2,456,363*(1)
50,000	Wells Fargo & Company, 8.00% Pfd., Series J	1,398,500*
		89,285,501
	Financial Services 1.8%	
	Ameriprise Financial:	
$ 250,000	Ameriprise Financial, Inc., 7.518% 06/01/66	250,625
	Credit Suisse Group:	
$ 1,300,000	Claudius, Ltd. Credit Suisse AG, 7.875%, Series B	1,241,500(3)
	Gulf Stream-Compass CLO:	
$ 3,000,000	Gulf Stream-Compass CLO 2005 Composite Notes, 144A****	2,151,360(4)(5)
	HSBC PLC:	
45,011	HSBC Finance Corporation, 6.36% Pfd., Series B	932,245*
	Lehman Brothers:	
20,000	Lehman Brothers Holdings, Inc., 5.67% Pfd., Series D	5,380*
85,000	Lehman Brothers Holdings, Inc., 7.95% Pfd.	1,632*
		4,582,742
	Insurance 20.1%	
	Ace Ltd.:	
$ 1,550,000	Ace Capital Trust II, 9.70% 04/01/30	2,029,787(1)(2)(3)
	Aon Corporation:	
$ 1,775,000	AON Corp, 8.205% 01/01/27	2,009,048(1)
	Arch Capital Group:	
12,150	Arch Capital Group Ltd., 7.875% Pfd., Series B	307,547**(1)(3)
	AXA SA:	
$ 1,196,000	AXA SA, 6.379%, 144A****	801,320**(1)(2)(3)
$ 114,000	AXA SA, 6.463%, 144A****	74,670**(3)
	Axis Capital:	
66,600	Axis Capital Holdings, 7.50% Pfd., Series B	6,212,534(1)(2)(3)
	Delphi Financial:	
160,000	Delphi Financial Group, 7.376% Pfd. 05/15/37	3,773,200(1)