Flaherty & Crumrine Dynamic Preferred & Income Fund Inc
Form N-Q
October 28, 2013

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 811-22762

Flaherty & Crumrine Dynamic Preferred and Income 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, 2013

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 Investment is attached herewith.

FLAHERTY & CRUMRINE DYNAMIC PREFERRED AND INCOME FUND

To the Shareholders of Flaherty & Crumrine Dynamic Preferred and Income Fund:

Total return on net asset value (NAV)[1] was -4.0% during the third fiscal quarter[2], reducing total return on NAV fiscal year-to-date to -4.2%. In addition, during the quarter the Fund, like many other closed-end income-oriented funds, saw the relationship between its market price and NAV swing from a premium to a discount, resulting in total return on market value of -14.2%. Clearly, this represented a setback in what had been a sustained period of positive returns for the preferred securities market. During the quarter, prices of all fixed-income securities, including preferred securities, declined and yields increased as markets reacted swiftly to expectations that the Federal Reserve might taper its quantitative easing earlier than anticipated.

Virtually all sectors of the fixed-income market turned in negative results during the quarter. U.S. Treasury 10-year notes and 30-year bonds experienced the largest declines with total returns of -4.6% and -6.5%, as their yields increased by 0.7% and 0.4%, respectively. Long-term corporate bonds performed moderately better than long-term U.S. Treasuries, with a total return of -4.7% for the Barclays Long U.S. Corporate Bond Index. Even including the impact of expenses and leverage, the Fund s NAV performed as well as *unlevered* total returns on those other long-term segments of fixed-income markets.

The quarter began with the Federal Open Market Committee (FOMC) having just indicated that it might begin tapering the pace of its program of securities purchases sooner than the market was expecting. Longer-term interest rates moved higher with a fair amount of consistency throughout the quarter, as markets digested the news and adjusted *expectations* for future monetary policy actions. Markets are driven by *expectations* more than actual results, and while we believe the market priced in more risk than was justified based on the outlook for growth in the U.S. economy, uncertainty surrounding a potential change in policy outlook led investors to reduce portfolio duration substantially. At its September meeting, the FOMC surprised the market yet again by continuing its program of securities purchases without tapering its pace. Since then, we have seen some recovery in fixed-income markets. Although we do not expect long-term Treasury rates to decline significantly, interest-rate risk premiums still appear high, providing investors with some protection against eventual removal of highly accommodative monetary policy.

The preferred securities market was not immune to the change in outlook for interest rates and a desire by many investors to reduce duration in their portfolios. In many cases, spreads on preferred securities widened relative to Treasuries, adding to price declines already associated with higher rates. Retail preferred securities were particularly weak as we witnessed meaningful reductions in the sizes of preferred-securities exchange-traded funds which had grown in size to represent about 9% of the retail market at the beginning of this quarter. Preferred securities issued in the early part of the year, most with very low coupons, were among the worst performers. Fortunately, we weren t tempted by many of those new issues much preferring the higher coupons available in the secondary market. Institutional preferred securities fared much better, and as they have a larger allocation in the portfolio they were partially responsible for limiting negative returns during the quarter.

Creditworthiness of most preferred-securities issuers continues to improve. Corporate earnings are growing at a moderate pace and corporate leverage remains low. Banks problem loans are declining, capital levels are healthy (especially in the U.S.) and new lending is slowly picking up. Rising home prices

[1] Following the 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.

[2] June 1st August 31st.

are bolstering consumer balance sheets and trimming foreclosure losses. These favorable credit developments should continue to benefit preferred securities.

While prices have fallen, market conditions for preferred securities remain healthy. Higher interest rates and wider spreads have resulted in a material slowdown in issuer redemptions. For the year, redemptions are still running ahead of new supply, with the preferred-securities market shrinking more than $10 billion, but the pace of redemptions slowed significantly this past quarter. A slowdown in issuer redemptions is always welcome news on the income side of the equation.

After a long wait, we now have largely final rules on the regulatory treatment of preferred securities issued by banks, foreign and domestic. Crafted in response to the financial crisis, new legislation and regulations shift loss burdens towards investors and away from taxpayers (government support). Under the new rules, banks will have an incentive to replace debt-like preferred securities with ones that have more characteristics of equity (deeper subordination, non-cumulative dividends, and no maturity date). The new rules include various implementation schedules, depending on the jurisdiction, with most being fully implemented within the next 3-8 years.

To conform to the new rules, we estimate U.S. banks will need to issue an additional $60 billion or more of new preferred stock. That is certainly a big number compared to $73 billion of currently outstanding bank preferred stock. While we think issuance will be manageable and spread out over several years, it will influence preferred securities prices when it happens. We are also likely to see more contingent capital issued in the coming years, as issuers look to fill different buckets of loss-absorbing capital required under the new rules. This market has so far been limited in size and breadth, but it is likely to grow and is part of the ongoing evolution of the broader subordinated capital market.

Looking ahead, moderate economic growth should provide a constructive environment for preferred-securities investors. We anticipate that economic growth will be fast enough to facilitate continued improvement in corporate and household balance sheets and better loan performance, while being slow enough to restrain inflation and keep monetary policy accommodative for some time. Spreads on preferred securities should recover as fears of further rapid increases in long-term interest rates recede and investors refocus on steadily improving credit conditions. Volatility is likely to remain elevated over the coming months, but we believe the preferred-securities market has priced in a good amount of risk related to the end of quantitative easing.

As always, we encourage you to visit the Fund s website www.preferredincome.com.

Sincerely,

Donald F. Crumrine	Robert M. Ettinger
Chairman	President

September 30, 2013

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

PORTFOLIO OVERVIEW

August 31, 2013 (Unaudited)

Fund Statistics

Net Asset Value	$ 22.49
Market Price	$ 21.15
Discount	5.96%
Yield on Market Price	8.85%
Common Stock Shares Outstanding	19,156,782

Moody s Ratings	**% of Net Assets**
A	2.3%
BBB	55.6%
BB	28.4%
Below BB	8.9%
Not Rated*	3.5%
Below Investment Grade**	25.3%

* Does not include net other assets and liabilities of 1.3%.

** 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**
JPMorgan Chase	4.6%
Citigroup	4.6%
Liberty Mutual Group	4.4%
MetLife	4.3%
HSBC PLC	4.1%
PNC Financial Services Group	3.6%
Prudential Financial	3.6%
Wells Fargo & Company	3.3%

Bank of America Corporation	3.1%
Barclays Bank PLC	3.1%

	% of Net Assets***
Holdings Generating Qualified Dividend Income (QDI) for Individuals	48%
Holdings Generating Income Eligible for the Corporate Dividends Received Deduction (DRD)	29%

*** 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 Dynamic Preferred and Income Fund Incorporated

PORTFOLIO OF INVESTMENTS

August 31, 2013 (Unaudited)

Shares/$ Par		Value
Preferred Securities 97.0%		
	Banking 48.0%	
11,750	AgStar Financial Services ACA, 6.75% Pfd., 144A****	$ 11,727,234*[(1)]
103,166	Astoria Financial Corp., 6.50% Pfd., Series C	2,411,247*[(1)]
	Banco Santander, S.A.:	
296,121	Banco Santander, 10.50% Pfd., Series 10	7,972,318**[(1)(2)]
	Bank of America:	
$ 11,000,000	Bank of America Corporation, 8.00%	12,112,826*[(1)]
$ 7,110,000	Bank of America Corporation, 8.125%	7,892,050*[(1)]
20,000	Countrywide Capital V, 7.00% Pfd. 11/01/36	502,050[(1)]
	Barclays Bank PLC:	
$ 9,062,000	Barclays Bank PLC, 6.278%	8,225,333**[(1)(2)]
60,000	Barclays Bank PLC, 7.10% Pfd.	1,492,800**[(2)]
$ 8,972,000	Barclays Bank PLC, 7.434%, 144A****	9,689,760**[(1)(2)]
31,907	Barclays Bank PLC, 8.125% Pfd., Series 5	805,652**[(1)(2)]
41,633	BB&T Corporation, 5.625% Pfd., Series E	894,693*
$ 19,300,000	BNP Paribas, 7.195%, 144A****	19,155,250**[(1)(2)]
	Citigroup:	
$ 16,000,000	Citigroup, Inc., 5.90%	15,181,584*
$ 4,325,000	Citigroup, Inc., 5.95%	4,114,156*
391,500	Citigroup Capital XIII, 7.875% Pfd.	10,754,035[(1)]
1,700	CoBank ACB, 6.25% Pfd., 144A****	173,772*
33,550	First Niagara Financial Group, Inc., 8.625% Pfd.	934,159*[(1)]
25,000	First Republic Bank, 6.20% Pfd.	574,220*
	Goldman Sachs Group:	
220,000	Goldman Sachs, 5.95% Pfd., Series I	5,025,636*[(1)]
$ 7,500,000	Goldman Sachs, Capital I, 6.345% 02/15/34	7,197,495[(1)]
	HSBC PLC:	
$ 13,858,000	HSBC Capital Funding LP, 10.176%, 144A****	19,626,393[(1)(2)]
$ 3,910,000	HSBC USA Capital Trust I, 7.808% 12/15/26, 144A****	3,988,200
$ 1,100,000	HSBC USA Capital Trust II, 8.38% 05/15/27, 144A****	1,117,855
63,800	HSBC USA, Inc., 6.50% Pfd., Series H	1,589,022*
	ING Groep NV:	
160,000	ING Groep NV, 6.375% Pfd.	3,665,600**[(1)(2)]
38,082	ING Groep NV, 7.05% Pfd.	939,578**[(2)]
3,201	ING Groep NV, 7.20% Pfd.	79,713**[(1)(2)]
235,000	ING Groep NV, 7.375% Pfd.	5,940,800**[(1)(2)]
	JPMorgan Chase:	
$ 10,700,000	JPMorgan Chase & Company, 6.00%, Series R	10,218,500*[(1)]
$ 18,000,000	JPMorgan Chase & Company, 7.90%, Series I	19,864,440*[(1)]

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

August 31, 2013 (Unaudited)

Shares/$ Par		**Value**
Preferred Securities (Continued)		
	Banking (Continued)	
$ 14,022,000	Lloyds Banking Group PLC, 6.657%, 144A****	$ 12,830,130**(1)(2)
$ 1,990,000	M&T Bank Corporation, 6.875%, 144A****	2,020,552*
	Morgan Stanley:	
5,721	Morgan Stanley Capital Trust III, 6.25% Pfd.	140,122
81,045	Morgan Stanley Capital Trust IV, 6.25% Pfd.	1,978,009(1)
44,892	Morgan Stanley Capital Trust VI, 6.60% Pfd. 02/01/46	1,116,689(1)
136,542	Morgan Stanley Capital Trust VII, 6.60% Pfd.	3,375,318(1)
107,539	Morgan Stanley Capital Trust VIII, 6.45% Pfd. 04/15/67	2,652,987(1)
	PNC Financial Services:	
451,824	PNC Financial Services, 6.125% Pfd., Series P	11,513,605*(1)
$ 11,748,000	PNC Financial Services, 6.75%	12,270,058*(1)
$ 8,625,000	RaboBank Nederland, 11.00%, 144A****	11,230,026(1)(2)
	Royal Bank of Scotland:	
$ 4,825,000	RBS Capital Trust II, 6.425% 12/29/49	4,101,250**(1)(2)
647,500	Royal Bank of Scotland Group PLC, 7.25% Pfd., Series T	14,853,650**(1)(2)
321,747	SunTrust Banks, Inc., 5.875% Pfd.	7,056,716*
110,000	US Bancorp, 6.50%, Pfd.	2,877,193*(1)
	Wells Fargo:	
50,000	Wells Fargo & Company, 5.85% Pfd.	1,217,190*
$ 18,000,000	Wells Fargo & Company, 7.98%, Series K	20,160,000*(1)
$ 10,000,000	Zions Bancorporation, 7.20%, Series J	9,975,000*
		313,234,866
	Financial Services 2.4%	
$ 3,780,000	American Express Co., 6.80% 09/01/66	4,051,215(1)
$ 5,600,000	Charles Schwab Corporation, 7.00%	6,160,000*(1)
	Deutsche Bank:	
114,000	Deutsche Bank Contingent Capital Trust III, 7.60% Pfd.	3,001,620**(1)(2)
8,103	Deutsche Bank Contingent Capital Trust V, 8.05% Pfd.	223,805**(1)(2)
$ 2,000,000	General Electric Capital Corp., 7.125%, Series A	2,208,574*(1)
8,500	HSBC Finance Corporation, 6.36% Pfd., Series B	199,686*
		15,844,900

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

August 31, 2013 (Unaudited)

Shares/$ Par		Value
Preferred Securities (Continued)		
	Insurance 31.8%	
	American International Group:	
$ 4,000,000	AIG Life Holdings, Inc., 7.57%, 144A****	$ 4,680,000[1]
$ 7,100,000	AIG Life Holdings, Inc., 8.125%, 144A****	8,502,250[1]
$ 5,000,000	American International Group, Inc., 8.175% 05/15/58	5,887,500[1]