

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

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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)<sup>1</sup> was -4.0% during the third fiscal quarter<sup>2</sup>, 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

<sup>1</sup> 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.

<sup>2</sup> June 1<sup>st</sup> - August 3<sup>rd</sup>.

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](http://www.preferredincome.com).

Sincerely,

Donald F. Crumrine

Chairman

September 30, 2013

Robert M. Ettinger

President

Flaherty &amp; 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&amp;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% |

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|  |                           |
|--|---------------------------|
| Bank of America Corporation  | 3.1%                      |
| Barclays Bank PLC  | 3.1%                      |
|  | <b>% of Net Assets***</b> |
| 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 &amp; Crumrine Dynamic Preferred and Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS****August 31, 2013 (Unaudited)**

| Shares/\$ Par                     |   | Value              |
|-----------------------------------|---|--------------------|
| <b>Preferred Securities 97.0%</b> |   |                    |
| <b>Banking 48.0%</b>              |   |                    |
| 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 &amp; Crumrine Dynamic Preferred and Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

August 31, 2013 (Unaudited)

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

Flaherty &amp; Crumrine Dynamic Preferred and Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

August 31, 2013 (Unaudited)

| Shares/\$ Par                           |  | Value                           |
|---|--|---------------------------------|
| <b>Preferred Securities (Continued)</b> |  |                                 |
| <b>Insurance 31.8%</b>                  |  |                                 |
| American International Group:           |  |                                 |
| \$ 4,000,000                            | AIG Life Holdings, Inc., 7.57%, 144A****                       | \$ 4,680,000 <sup>(1)</sup>     |
| \$ 7,100,000                            | AIG Life Holdings, Inc., 8.125%, 144A****                      | 8,502,250 <sup>(1)</sup>        |
| \$ 5,000,000                            | American International Group, Inc., 8.175% 05/15/58            | 5,887,500 <sup>(1)</sup>        |
| \$ 1,010,000                            | Aon Corporation, 8.205% 01/01/27                               | 1,240,528                       |
| 314,127                                 | Arch Capital Group, Ltd., 6.75% Pfd., Series C                 | 7,607,779 <sup>**</sup> (1)(2)  |
| AXA SA:                                 |  |                                 |
| \$ 7,550,000                            | AXA SA, 6.379%, 144A****                                       | 7,399,000 <sup>**</sup> (1)(2)  |
| \$ 8,950,000                            | AXA SA, 8.60% 12/15/30   | 10,628,125 <sup>(1)(2)</sup>    |
| Axis Capital Holdings:                  |  |                                 |
| 4,300                                   | Axis Capital Holdings Ltd., 5.50% Pfd.                         | 85,624 <sup>**</sup> (2)        |
| 429,952                                 | Axis Capital Holdings, 6.875% Pfd., Series C                   | 10,426,336 <sup>**</sup> (1)(2) |
| 41,000                                  | Endurance Specialty Holdings, 7.50% Pfd.                       | 1,026,291 <sup>**</sup> (2)     |
| \$ 988,000                              | Everest Re Holdings, 6.60% 05/15/37                            | 985,530 <sup>(1)</sup>          |
| GWL&A Financial:                        |  |                                 |
| \$ 2,200,000                            | Great West Life & Annuity Insurance, 7.153% 05/16/46, 144A**** | 2,271,500 <sup>(1)</sup>        |
| Liberty Mutual Group:                   |  |                                 |
| \$ 17,950,000                           | Liberty Mutual Group, 7.80% 03/15/37, 144A****                 | 20,283,500 <sup>(1)</sup>       |
| \$ 5,520,000                            | Liberty Mutual Group, 10.75% 06/15/58, 144A****                | 8,197,200 <sup>(1)</sup>        |
| \$ 13,000,000                           | Lincoln National Corporation, 7.00% 05/17/66                   | 13,260,000 <sup>(1)</sup>       |
| MetLife:                                |  |                                 |
| \$ 3,759,000                            | MetLife, Inc., 10.75% 08/01/39                                 | 5,582,115 <sup>(1)</sup>        |
| \$ 17,200,000                           | MetLife Capital Trust X, 9.25% 04/08/38, 144A****              | 22,360,000 <sup>(1)</sup>       |
| PartnerRe:                              |  |                                 |
| 64,279                                  | PartnerRe Ltd., 6.50% Pfd.                                     | 1,532,656 <sup>**</sup> (2)     |
| 65,000                                  | PartnerRe Ltd., 7.250% Pfd., Series E                          | 1,644,500 <sup>**</sup> (2)     |
| 720,000                                 | Principal Financial Group, 6.518% Pfd., Series B               | 18,052,200*                     |
| Prudential Financial:                   |  |                                 |
| \$ 9,070,000                            | Prudential Financial Inc., 8.875% 06/15/38                     | 10,974,700 <sup>(1)</sup>       |
| \$ 6,375,000                            | Prudential Financial, Inc., 5.875% 09/15/42                    | 6,247,500 <sup>(1)</sup>        |
| \$ 6,930,000                            | Prudential Financial, Inc., 5.625% 06/15/43                    | 6,514,200 <sup>(1)</sup>        |
| QBE Insurance:                          |  |                                 |
| \$ 8,000,000                            | QBE Capital Funding III Ltd., 7.25% 05/24/41, 144A****         | 8,452,488 <sup>(1)(2)</sup>     |
| \$ 350,000                              | StanCorp Financial Group, 6.90% 06/01/67                       | 350,875                         |
| 288,323                                 | W.R. Berkley Corporation, 5.625% Pfd.                          | 6,189,949                       |

Flaherty &amp; Crumrine Dynamic Preferred and Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

August 31, 2013 (Unaudited)

| Shares/\$ Par                                   |   | Value                           |
|---|---|---------------------------------|
| <b>Preferred Securities (Continued)</b>         |   |                                 |
| <b>Insurance (Continued)</b>                    |   |                                 |
| XL Group PLC:                                   |   |                                 |
| \$ 17,080,000                                   | XL Capital Ltd., 6.50%, Series E                        | \$ 16,610,300 <sup>(1)(2)</sup> |
|   |   | 206,992,646                     |
| <b>Utilities 5.2%</b>                           |   |                                 |
| Commonwealth Edison:                            |   |                                 |
| \$ 2,000,000                                    | COMED Financing III, 6.35% 03/15/33                     | 1,900,000                       |
| 10,400  | Entergy Louisiana, Inc., 6.95% Pfd.                     | 1,044,226*                      |
| 116,000   | Integrus Energy Group, Inc., 6.00% Pfd.                 | 2,849,250                       |
| PPL Corp:                                       |   |                                 |
| \$ 19,500,000                                   | PPL Capital Funding, Inc., 6.70% 03/30/67, Series A     | 20,198,412 <sup>(1)</sup>       |
| \$ 5,500,000                                    | Puget Sound Energy, Inc., 6.974% 06/01/67               | 5,811,965                       |
| \$ 2,000,000                                    | Southern California Edison Co., 6.25%, Series E         | 2,099,032*                      |
|   |   | 33,902,885                      |
| <b>Energy 3.0%</b>                              |   |                                 |
| \$ 10,005,000                                   | DCP Midstream LLC, 5.85% 05/21/2043, 144A****           | 9,329,662 <sup>(1)</sup>        |
| \$ 4,000,000                                    | Enbridge Energy Partners LP, 8.05% 10/01/37             | 4,480,880 <sup>(1)</sup>        |
| Enterprise Products Partners:                   |   |                                 |
| \$ 1,630,000                                    | Enterprise Products Partners, 8.375% 08/01/66, Series A | 1,814,555 <sup>(1)</sup>        |
| \$ 3,675,000                                    | Enterprise Products Partners, 7.034% 01/15/68, Series B | 4,083,112 <sup>(1)</sup>        |
|   |   | 19,708,209                      |
| <b>Real Estate Investment Trust (REIT) 6.0%</b> |   |                                 |
| 425,148   | Alexandria Real Estate, 6.45% Pfd., Series E            | 10,024,990                      |
| Duke Realty Corp.:                              |   |                                 |
| 100,000   | Duke Realty Corp, 6.50% Pfd., Series K                  | 2,356,250                       |
| 234,877   | Duke Realty Corp, 6.60% Pfd., Series L                  | 5,578,329                       |
| Kimco Realty:                                   |   |                                 |
| 47,308  | Kimco Realty Corporation, 6.00% Pfd., Series I          | 1,073,489                       |
| 133,506   | Kimco Realty Corporation, 6.90% Pfd., Series H          | 3,376,367 <sup>(1)</sup>        |
| National Retail Properties:                     |   |                                 |
| 26,000  | National Retail Properties, Inc., 5.70% Pfd., Series E  | 531,739                         |
| 7,879   | National Retail Properties, Inc., 6.625% Pfd., Series D | 185,255                         |

Flaherty &amp; Crumrine Dynamic Preferred and Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

August 31, 2013 (Unaudited)

| Shares/\$<br>Par | Value |
|------------------|-------|
|------------------|-------|

| <b>Preferred Securities (Continued)</b>                       |   |                          |
|---|---|--------------------------|
| <b>Real Estate Investment Trust (REIT) (Continued)</b>        |   |                          |
| PS Business Parks:  |   |                          |
| 20,808  | PS Business Parks, Inc., 5.70% Pfd., Series V             | \$ 438,841               |
| 396,651   | PS Business Parks, Inc., 6.00% Pfd., Series T             | 8,547,829                |
| 72,606  | PS Business Parks, Inc., 6.45% Pfd., Series S             | 1,691,829 <sup>(1)</sup> |
| 12,180  | PS Business Parks, Inc., 6.875% Pfd., Series R            | 300,968 <sup>(1)</sup>   |
| 185,100   | Public Storage, 6.35% Pfd., Series R                      | 4,534,950                |
| 6,335   | Regency Centers Corporation, 6.625% Pfd.                  | 149,706                  |
| 8,313   | Weingarten Realty Investors, 6.50% Pfd., Series F         | 206,527 <sup>(1)</sup>   |
|   |   | 38,997,069               |
| <b>Miscellaneous Industries 0.6%</b>                          |   |                          |
| \$ 4,430,000  | Textron Financial Corporation, 6.00% 02/15/67, 144A****   | 3,953,775 <sup>(1)</sup> |
|   |   | 3,953,775                |
| <b>Total Preferred Securities</b><br>(Cost \$657,213,731)     |   | 632,634,350              |
| <b>Corporate Debt Securities 1.7%</b>                         |   |                          |
| <b>Banking 1.5%</b>   |   |                          |
| \$ 6,556,000  | Goldman Sachs Group, Inc., 6.75% 10/01/37, Sub Notes      | 6,786,194 <sup>(1)</sup> |
| \$ 700,000  | Regions Financial Corporation, 7.375% 12/10/37, Sub Notes | 757,938                  |
| 102,985   | Texas Capital Bancshares Inc., 6.50% 09/21/42, Sub Notes  | 2,320,386 <sup>(1)</sup> |
|   |   | 9,864,518                |
| <b>Financial Services 0.2%</b>                                |   |                          |
| 39,267  | Affiliated Managers Group, Inc., 6.375% 08/15/42          | 923,619 <sup>(1)</sup>   |
|   |   | 923,619                  |
| <b>Total Corporate Debt Securities</b><br>(Cost \$11,517,436) |   | 10,788,137               |

Flaherty &amp; Crumrine Dynamic Preferred and Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

August 31, 2013 (Unaudited)

| Shares/\$<br>Par              |   | Value                 |
|-------------------------------|---|-----------------------|
| <b>Money Market Fund 0.0%</b> |   |                       |
|                               | BlackRock Liquidity Funds:                        |                       |
| 78,942                        | T-Fund  | \$ 78,942             |
|                               | <b>Total Money Market Fund</b><br>(Cost \$78,942) | 78,942                |
|                               | <b>Total Investments</b> (Cost \$668,810,109***)  | 98.7% 643,501,429     |
|                               | <b>Other Assets And Liabilities</b> (Net)         | 1.3% 8,419,503        |
|                               | <b>Total Managed Assets</b>                       | 100.0% \$ 651,920,932 |
|                               | <b>Loan Principal Balance</b>                     | (221,000,000)         |
|                               | <b>Total Net Assets Available To Common Stock</b> | \$ 430,920,932        |

\* Securities eligible for the Dividends Received Deduction and distributing Qualified Dividend Income.

\*\* Securities distributing Qualified Dividend Income only.

\*\*\* Aggregate cost of securities held.

\*\*\*\* Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration to qualified institutional buyers. At August 31, 2013, these securities amounted to \$186,988,547 or 28.7% of total managed assets.

(1) All or a portion of this security is pledged as collateral for the Fund's loan. The total value of such securities was \$423,494,499 at August 31, 2013.

(2) Foreign Issuer.

The percentage shown for each investment category is the total value of that category as a percentage of total managed assets.

**ABBREVIATIONS:**

**Pfd.** Preferred Securities  
**REIT** Real Estate Investment Trust

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

**STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK<sup>(1)</sup>**

For the period from May 29, 2013<sup>(2)</sup> through August 31, 2013 (Unaudited)

|  | Value                 |
|--|-----------------------|
| <b>OPERATIONS:</b>   |                       |
| Net investment income  | \$ 5,809,484          |
| Net realized gain/(loss) on investments sold during the period                                     | (13,287)              |
| Change in net unrealized appreciation/depreciation of investments                                  | (25,308,680)          |
| <b>Net decrease in net assets resulting from operations</b>  | <b>(19,512,483)</b>   |
| <b>DISTRIBUTIONS:</b>  |                       |
| Dividends paid from net investment income to Common Stock Shareholders <sup>(3)</sup>              | (5,976,916)           |
| <b>Total Distributions to Common Stock Shareholders</b>  | <b>(5,976,916)</b>    |
| <b>FUND SHARE TRANSACTIONS:</b>  |                       |
| Increase from Common Stock Transactions  | 457,267,943           |
| Decrease due to Cost of Common Stock Offering  | (957,629)             |
| <b>Net increase in net assets available to Common Stock resulting from Fund share transactions</b> | <b>456,310,314</b>    |
| <b>NET INCREASE IN NET ASSETS AVAILABLE TO COMMON STOCK FOR THE PERIOD</b>                         | <b>\$ 430,820,915</b> |
| <b>NET ASSETS AVAILABLE TO COMMON STOCK:</b>   |                       |
| Beginning of period  | \$ 100,017            |
| Net increase in net assets during the period   | 430,820,915           |
| End of period  | \$ 430,920,932        |

(1) These tables summarize the period from May 29, 2013 through August 31, 2013 and should be read in conjunction with the Fund's financial statements, including footnotes, in its Semi Annual Report dated May 31, 2013.

(2) Commencement of operations.

Flaherty &amp; Crumrine Dynamic Preferred and Income Fund Incorporated

**FINANCIAL HIGHLIGHTS<sup>(1)</sup>****For the period from May 29, 2013<sup>(2)</sup> through August 31, 2013 (Unaudited)****For a Common Stock share outstanding throughout the period****PER SHARE OPERATING PERFORMANCE:**

|                                      |                         |
|--------------------------------------|-------------------------|
| Net asset value, beginning of period | \$ 23.83 <sup>(3)</sup> |
|--------------------------------------|-------------------------|

**INVESTMENT OPERATIONS:**

|                       |      |
|-----------------------|------|
| Net investment income | 0.30 |
|-----------------------|------|

|  |        |
|--|--------|
| Net realized and unrealized gain/(loss) on investments | (1.33) |
|--|--------|

|                                  |        |
|----------------------------------|--------|
| Total from investment operations | (1.03) |
|----------------------------------|--------|

**DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:**

|                            |        |
|----------------------------|--------|
| From net investment income | (0.31) |
|----------------------------|--------|

|  |        |
|--|--------|
| Total distributions to Common Stock Shareholders | (0.31) |
|--|--------|

|                                |          |
|--------------------------------|----------|
| Net asset value, end of period | \$ 22.49 |
|--------------------------------|----------|

|                             |          |
|-----------------------------|----------|
| Market value, end of period | \$ 21.15 |
|-----------------------------|----------|

|  |            |
|--|------------|
| Common Stock shares outstanding, end of period | 19,156,782 |
|--|------------|

**RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK SHAREHOLDERS:**

|                       |        |
|-----------------------|--------|
| Net investment income | 5.18%* |
|-----------------------|--------|

|   |        |
|---|--------|
| Operating expenses including interest expense | 1.29%* |
|---|--------|

|   |        |
|---|--------|
| Operating expenses excluding interest expense | 0.99%* |
|---|--------|

**SUPPLEMENTAL DATA:**

|                         |      |
|-------------------------|------|
| Portfolio turnover rate | 3%** |
|-------------------------|------|

|  |            |
|--|------------|
| Total managed assets, end of period (in 000 s) | \$ 651,921 |
|--|------------|

|  |        |
|--|--------|
| Ratio of operating expenses including interest expense to total managed assets | 1.05%* |
|--|--------|

|  |        |
|--|--------|
| Ratio of operating expenses excluding interest expense to total managed assets | 0.80%* |
|--|--------|

(1) These tables summarize the period from May 29, 2013 through August 31, 2013 and should be read in conjunction with the Fund's audited financial statements, including footnotes, in its Semi Annual Report dated May 31, 2013.

(2) Commencement of operations.

(3) Net asset value at beginning of the period reflects the deduction of the sales load of \$1.125 per share and offering cost of \$0.05 per share paid by the shareholder from the \$25.00 offering price.

\* Annualized.

\*\* Not Annualized.

The net investment income ratios reflect income net of operating expenses, including interest expense. Information presented under heading Supplemental Data includes loan principal balance.





Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

**FINANCIAL HIGHLIGHTS (Continued)**

**Per Share of Common Stock (Unaudited)**

|                 | <b>Total<br/>Dividends<br/>Paid</b> | <b>Net Asset<br/>Value</b> | <b>NYSE<br/>Closing Price</b> | <b>Dividend<br/>Reinvestment<br/>Price<sup>(1)</sup></b> |
|-----------------|-------------------------------------|----------------------------|-------------------------------|--|
| May 31, 2013    | N/A                                 | \$ 23.76                   | \$ 25.00                      | N/A  |
| June 28, 2013   | N/A                                 | 23.10                      | 25.00                         | N/A  |
| July 31, 2013   | 0.156                               | 23.14                      | 22.09                         | N/A  |
| August 30, 2013 | 0.156                               | 22.49                      | 21.15                         | N/A  |

<sup>(1)</sup> Whenever the net asset value per share of the Fund's Common Stock is less than or equal to the market price per share on the reinvestment date, new shares issued will be valued at the higher of net asset value or 95% of the then current market price. Otherwise, the reinvestment shares of Common Stock will be purchased in the open market.

Flaherty &amp; Crumrine Dynamic Preferred and Income Fund Incorporated

**NOTES TO FINANCIAL STATEMENTS (Unaudited)****1. Aggregate Information for Federal Income Tax Purposes**

At August 31, 2013, the aggregate cost of securities for federal income tax purposes was \$668,810,109, the aggregate gross unrealized appreciation for all securities in which there is an excess of value over tax cost was \$1,186,657 and the aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value was \$26,495,337.

**2. Additional Accounting Standards**

*Fair Value Measurements:* The Fund has performed an analysis of all existing investments and derivative instruments to determine the significance and character of all inputs to their fair value determination. The levels of fair value inputs used to measure the Fund's investments are characterized into a fair value hierarchy. Where inputs for an asset or liability fall into more than one level in the fair value hierarchy, the investment is classified in its entirety based on the lowest level input that is significant to that investment's valuation. The three levels of the fair value hierarchy are described below:

|         |  |
|---------|--|
| Level 1 | quoted prices in active markets for identical securities   |
| Level 2 | other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.) |
| Level 3 | significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)                        |

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Transfers in and out of levels are recognized at market value at the end of the period. A summary of the inputs used to value the Fund's investments as of August 31, 2013 is as follows:

|                                     | Total<br>Value at<br>August 31, 2013 | Level 1<br>Quoted<br>Price | Level 2<br>Significant<br>Observable<br>Inputs | Level 3<br>Significant<br>Unobservable<br>Inputs |
|-------------------------------------|--------------------------------------|----------------------------|--|--|
| Preferred Securities                |                                      |                            |  |  |
| Banking                             | \$ 313,234,866                       | \$ 212,204,241             | \$ 101,030,625                                 | \$   |
| Financial Services                  | 15,844,900                           | 11,793,685                 | 4,051,215                                      |  |
| Insurance                           | 206,992,646                          | 118,822,450                | 88,170,196                                     |  |
| Utilities                           | 33,902,885                           | 23,047,662                 | 10,855,223                                     |  |
| Energy                              | 19,708,209                           | 6,295,435                  | 13,412,774                                     |  |
| Real Estate Investment Trust (REIT) | 38,997,069                           | 38,997,069                 |  |  |
| Miscellaneous Industries            | 3,953,775                            |                            | 3,953,775                                      |  |
| Corporate Debt Securities           | 10,788,137                           | 10,030,199                 | 757,938  |  |
| Money Market Fund                   | 78,942                               | 78,942                     |  |  |
| <b>Total Investments</b>            | <b>\$ 643,501,429</b>                | <b>\$ 421,269,683</b>      | <b>\$ 222,231,746</b>                          | <b>\$</b>  |

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

**NOTES TO FINANCIAL STATEMENTS (Unaudited) (Continued)**

During the reporting period, securities with an aggregate market value of \$19,155,250 were transferred into Level 1 from Level 2. During the reporting period, securities with an aggregate market value of \$7,892,050 were transferred into Level 2 from Level 1. The securities were transferred because of a reduction in the amount of observable market data, resulting from: a decrease in market activity for the securities, reduced availability of quoted prices for the securities, or de-listing of securities from a national securities exchange that resulted in a material decrease in activity.

The fair values of the Fund's investments are generally based on market information and quotes received from brokers or independent pricing services approved by the Board and unaffiliated with the Adviser. To assess the continuing appropriateness of security valuations, management, in consultation with the Adviser, regularly compares current prices to prior prices, prices across comparable securities, actual sale prices for securities in the Fund's portfolio, and market information obtained by the Adviser as a function of being an active participant in the markets.

Securities with quotes that are based on actual trades or actionable bids and offers with a sufficient level of activity on or near the measurement date are classified as Level 1. Securities that are priced using quotes derived from implied values, indicative bids and offers, or a limited number of actual trades or the same information for securities that are similar in many respects to those being valued are classified as Level 2. If market information is not available for securities being valued, or materially-comparable securities, then those securities are classified as Level 3. In considering market information, management evaluates changes in liquidity, willingness of a broker to execute at the quoted price, the depth and consistency of prices from pricing services, and the existence of observable trades in the market.

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**Directors**

Donald F. Crumrine, CFA

Chairman of the Board

David Gale

Morgan Gust

Karen H. Hogan

Robert F. Wulf, CFA

**Officers**

Donald F. Crumrine, CFA

Chief Executive Officer

Robert M. Ettinger, CFA

President

R. Eric Chadwick, CFA

Chief Financial Officer,

Vice President and Treasurer

Chad C. Conwell

Chief Compliance Officer,

Vice President and Secretary

Bradford S. Stone

Vice President and

Assistant Treasurer

Laurie C. Lodolo

Assistant Compliance Officer,

Assistant Treasurer and

Assistant Secretary

Linda M. Puchalski

Assistant Treasurer

**Investment Adviser**

Flaherty & Crumrine Incorporated

e-mail: flaherty@pfdincome.com

**Servicing Agent**

Destra Capital Investments LLC

1-877-855-3434

**Questions concerning your shares of Flaherty & Crumrine Dynamic Preferred and Income Fund?**

If your shares are held in a Brokerage Account, contact your Broker.

If you have physical possession of your shares in certificate form, contact the Fund's Transfer Agent  
BNY Mellon Investment Servicing (US) Inc.

P.O. Box 358035

Pittsburgh, PA 15252-8035

1-866-351-7446

**This report is sent to shareholders of Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated for their information. It is not a Prospectus, circular or representation intended for use in the purchase or sale of shares of the Fund or of any securities mentioned in this report.**

Quarterly

Report

August 31, 2013

[www.preferredincome.com](http://www.preferredincome.com)

**Item 2. Controls and Procedures.**

- (a) The registrant's principal executive and principal financial officers, or persons performing similar functions, have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the 1940 Act ) (17 CFR 270.30a-3(c))) are effective, as of a date within 90 days of the filing date of the report that includes the disclosure required by this paragraph, based on their evaluation of these controls and procedures required by Rule 30a-3(b) under the 1940 Act (17 CFR 270.30a-3(b)) and Rules 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934, as amended (17 CFR 240.13a-15(b) or 240.15d-15(b)).
  
- (b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act (17 CFR 270.30a-3(d))) that occurred during the registrant's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

**Item 3. Exhibits.**

Certifications pursuant to Rule 30a-2(a) under the 1940 Act and Section 302 of the Sarbanes-Oxley Act of 2002 are attached hereto.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant) Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

By (Signature and Title)\* /s/ Donald F. Crumrine

Donald F. Crumrine, Director, Chairman of the Board and Chief

Executive Officer

(principal executive officer)

Date 10/22/2013

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By (Signature and Title)\* /s/ Donald F. Crumrine

Donald F. Crumrine, Director, Chairman of the Board and Chief

Executive Officer

(principal executive officer)

Date 10/22/2013

By (Signature and Title)\* /s/ R. Eric Chadwick

R. Eric Chadwick, Chief Financial Officer, Treasurer and Vice

President

(principal financial officer)

Date 10/22/2013

\* Print the name and title of each signing officer under his or her signature.