

Edgar Filing: ZWEIG TOTAL RETURN FUND INC - Form N-30B-2

ZWEIG TOTAL RETURN FUND INC  
Form N-30B-2  
December 01, 2003

November 1, 2003

Dear Shareholder:

The Zweig Total Return Fund's net asset value declined 0.32% for the three months ended September 30, 2003, including the \$0.124 in reinvested distributions. Consistent with our policy of seeking to minimize risks, while earning reasonable returns, the Fund's average overall exposure for the quarter was approximately 56%.

For the nine months ended September 30, 2003, the Fund's net asset value gained 3.78%, including the \$0.410 in reinvested distributions. Our average overall exposure for the nine months was approximately 63%.

DISTRIBUTION DECLARED

The Fund recently announced a distribution of \$0.029 payable on October 27, 2003 to shareholders of record on October 13, 2003. Including this distribution, the Fund's total payout since its inception is now \$12.475.

Sincerely,

/s/ Philip R. McLoughlin  
Philip R. McLoughlin  
Chairman

MARKET OUTLOOK

Our bond exposure on September 30 was 34% with average duration (a measure of sensitivity to interest rates) of 2.9 years. On June 30 our bond exposure was 49% with average duration of 4.6 years. If we were fully invested, we would be at 62.5% in bonds and 37.5% in stocks. Consequently, at 34% we are at 54% of a full position (34% divided by 62.5%).

Treasury securities dropped sharply in price during the third quarter. It was one of their worst quarterly performances in years. The Federal Reserve's 0.25% cut in the overnight Fed Funds rate to 1.00% on June 25/th/ had the opposite effect on the longer-dated bond yields because investors feared the end of lower interest rates. As interest rates climbed, professional traders of mortgage-backed securities hedged current holdings by selling Treasury bonds. The need to sell additional bonds stems from the fact that the duration of mortgage paper rises because fewer people refinance their mortgages as rates climb. This "negative convexity" turned what was a sharp rise in interest rates into a blood bath in July. The bellwether 10-year note lost 7.08%, the worst monthly return in more than two decades. August saw a rebound with roughly half of the losses erased. By the end of the quarter, the benchmark 10-year Treasury had lost 1.87% and the yield had risen from 3.51% to 3.93%.

Fortunately we had already begun the process of trimming the duration of the portfolio by selling some Treasuries. We continued to cut our exposure during the quarter and now stand at one of the lowest level of exposures in the recent past. We believe there are well-founded concerns that China and Japan will slow their extensive buying of Treasuries due to the weakening dollar. That will continue to weigh on bond prices. Additionally, commodity prices have been rising, signaling either an uptick in global economic

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growth or increasing inflationary pressures. Either possibility is a major negative for bonds.

Our equity exposure at the close of the third quarter was 22% against 21% on June 30. At 22% we are at about 59% of a full position (22% divided by 37.5%).

Stocks finished higher in the third quarter but the gains were smaller than in the second three months. The Dow Jones Industrial Average/1/ rose 3.8% against 12% in the preceding quarter. The Standard & Poor's 500 Index/2 /was up 2.65% against 15%, and the NASDAQ/3/ composite gained 10.1% against 21%.

I attribute the market's positive performance to the perception that the economy was improving and earnings were good. The Federal Reserve left short-term interest rates unchanged at its September meeting and indicated that it had no plans to raise rates. Some people from the Fed independently said that the gross domestic product would be very high for the quarter -- perhaps even 5% or in that vicinity. The market likes the idea that the Fed is in no hurry to boost rates and stocks generally maintained their momentum.

The market surged recently on reports from the Institute of Supply Management that manufacturing expanded for the third consecutive month in September. The factory index was 53.7, slightly lower than August's 54.7. Readings above 50 indicate growth rather than contraction. Although manufacturing has picked up, it certainly isn't strong. Activity in the low 50s is a positive but a weak one. Meanwhile, capacity utilization remains extremely low at around 75%.

The market also rose on reports that non-farm payrolls grew by 57,000 in September after a seven-month string of job losses totaling 551,000. The unemployment rate held steady at 6.1%. I think the market probably overreacted to that report. There had been a really strong selloff the week before with the NASDAQ alone down 6%. So the market was ready to bounce because it had sold off sharply right before that.

Careful reading of the non-farm payroll reports reveals that half of the job increases were for temporary employees and the average wage rates were actually down. Also, because of the growing labor force, you need a monthly gain of 125,000 just to keep the jobless rate from rising. While the report was better than Wall Street had expected, it did not represent a major turnaround.

Illustrating the weakness in the labor market, worker productivity increased 6.8% in the second quarter. Since the end of 2001, productivity has risen at a 5% annual rate, the fastest pace in the beginning phases of an economic recovery since the early 1960s. Productivity historically has jumped after you come out of a recession. Since many people have been laid off, the output per worker increases as business picks up. The flip side of high productivity is the poor employment situation. If productivity continues to rise year after year, it indicates that more jobs are being exported.

Problems in the labor picture were highlighted in the Conference Board's report that consumer confidence dropped to 76.8 in September, the lowest figure since the start of the Iraq war. The percentage of people who saw jobs as hard to get increased to 35.3%, the highest figure since December 1993. I was surprised by the consumer confidence slippage because both the economy and the stock market had gotten a bit better. But jobs are the problem. People that have them are worried about keeping them and people who are looking are not very optimistic.

Meanwhile, consumer debt is increasing at a rapid rate. It rose \$6 billion

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in July to \$1.774 trillion against an increase of only \$100 million in June. While the month-to-month changes in consumer debt are notoriously volatile, I believe that there is too much debt out there and that is one of the drags on the economy. The consumer is in hock up to his eyeballs and if the consumer doesn't start turning the economy around, who will?

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The economy is facing another challenge with the news that OPEC will cut production by 3.5% effective November 1. Other things being equal, higher energy prices can slow the economy on the margin because it is like a tax increase. People must have energy. They might cut back a bit on gasoline use and turn down their thermostats but they will continue to buy a lot of energy at the higher prices. Consequently they would have less to spend on other things, putting another burden on the economy. While it doesn't work all the time, substantially higher energy prices also tend to hurt the stock market.

In the hope that it would reduce unemployment, the administration has abandoned its strong dollar policy and is pressuring Asian countries to let their currencies appreciate against the dollar. American manufacturers contend that the strong dollar undercuts their competitive position by making foreign imports cheap and their exports expensive. Right now more than half or the manufactured goods that consumers buy is made abroad, up 31% from 1987. While consumers would suffer from paying higher prices, I think the stock market likes a weaker dollar because it would boost earnings for U.S. companies that export. I am not sure whether the weak dollar actually helps the market.

Individual investors placed \$21.38 billion in new money into mutual funds in July, the highest sum since March 2002. That's quite a change from recent history since investors withdrew money from mutual funds in six of the last seven months of 2002 and in the first two months of this year. If the flows into mutual funds rise at a moderate rate, that is bullish. If they get too overheated, as at the beginning of 2000, then you have to watch out. At the moment it is probably okay but if it gets too hot I would be concerned.

Insider sales are soaring. In August insiders sold \$44 of stock for every dollar of stock they bought. I have numbers that go back to 1971 and, off the top of my head, I think this is the third worse reading since the mid-1980s. Insiders tend to sell on strength and buy on weakness and we have had strength in the market. Insiders have been selling very hard for the past four months or so. Overall, I don't think it is a good sign. So we have an interesting juxtaposition -- the insiders are selling and the public is buying into mutual funds.

Brokerage houses report that day trading volumes are climbing rapidly but are still well below the market peak of three years ago. Day traders are huge speculators and when they are too active it usually has been terrible for the market. Some analysts think we are seeing a second bubble but I don't know whether that's true. But you would think people would be a little more conservative after what happened in the market from 2000 on. I am surprised that speculation is coming back so quickly.

There is growing interest in initial public offerings. In the third quarter 21 companies entered the market, raising \$4.08 billion. There were only five offerings in each of the first two quarters. A weak market makes it more difficult to sell IPO'S. Because of the market strength in the second quarter, they were able to underwrite more. And there is more on the horizon. Right now the IPO'S are not a problem but the secondary distributions are huge and

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getting up to record numbers. That's not a very good sign.

Merger and acquisition activities slowed in the third quarter. They totaled nearly \$120 billion, down 16% from the same quarter a year ago. However, they increased on a quarter-to-quarter basis from \$70 billion in the first three months to \$102 billion in the second quarter. These numbers have little significance unless they are cash deals. If companies just merge their stock, it doesn't do much for the market one way or another. But if they are cash takeovers it does reduce supply and adds cash to the marketplace. Despite cash deals and stock buybacks, the supply has actually increased quite a bit in the last quarter or two because of new issues of convertible bonds, new issues of stock, and sales by insiders.

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There are reports that hedge fund managers, who had been bearish, have become more bullish and overall short interest on the NASDAQ has fallen to its lowest level since last May.\* The managers had probably been overly cautious. They were forced to cover shorts and buy more stock, helping the market to go up. If they get too bullish, the market probably will go back down.

Recently 365 companies of the S&P 500 were paying dividends, 14 more than at the start of the year. The tax cut is encouraging companies to pay dividends or increase their dividends. Microsoft is a good example. I think that we will see more dividend increases but the problem is that the dividend yield is so low. The yields averaged only 1.66% for the preceding twelve months.

The S&P 500 is now trading at about 28 times the companies' earnings for the past twelve months. Historically the rate has been about 15 times earnings. Consequently, I believe the market is significantly overvalued.

Summing up, the main positives for the market outlook include the improving economy and company earnings. Incidentally, the market hasn't always done that well when earnings are strong. The Fed of course has done its part by cutting a lot and that is another positive. Over time there has been a downturn in long-term interest rates but since the spring they have gone up some. The tape action had been pretty good and the momentum has been strong.

The negatives include the valuations that I consider to be way out of line and the fact that sentiment is showing a lot of exuberance. Also advisers are extremely optimistic on the market -- and they tend to be wrong.\* There are a lot of things I don't like in the sentiment area and my sentiment model is not really good right now. Although the tape is strong and the market seems to want to continue climbing, I think it is a high-risk period. Because of the valuations and the sentiment, I think that we are going to have problems in the market at some point. That's why we are cautious at this writing.

Sincerely,

[GRAPHIC]

Martin E. Zweig, Ph.D.  
President  
Zweig Consulting LLC

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\* Source: Zweig Consulting LLC  
/1/The Dow Jones Industrial Average measures large-cap stock performance.  
/2/The S&P 500(R) Index measures total-return stock market performance.  
/3/NASDAQ indexes measure total return stock performance, weighted according to market value.  
These measurement tools are unmanaged, do not reflect management fees, and are not available for direct investment.

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PORTFOLIO COMPOSITION

In accordance with our investment policy guidelines, all of our bonds are U.S. Government Agency obligations. Since these bonds are highly liquid, they provide the flexibility to respond quickly to changing market conditions.

Our leading equity industry groups at the end of the third quarter included financials, health care, technology, consumer staples and energy. The only change during the quarter was the replacement of consumer discretionary by consumer staples, where we added to our holdings. We trimmed our positions in technology and consumer discretionary.

Our leading individual positions included Citigroup, Pfizer, Dell, Wells Fargo, Excelon Corp., Bank of America, Microsoft, Amgen, Mylan Laboratories, and Cisco Systems. During the quarter we added to our holdings in Excelon Corp. and sold out our stake in General Electric.

Sincerely,

[SIGNATURE]

/s/ Carlton Neel  
Carlton Neel  
Executive Vice President  
Phoenix/Zweig Advisers LLC

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THE ZWEIG TOTAL RETURN FUND, INC.

INVESTMENTS AND SECURITIES HELD SHORT

September 30, 2003  
(Unaudited)

|               | Number of<br>Shares | Value |
|---------------|---------------------|-------|
|               | -----               | ----- |
| INVESTMENTS   | 65.50%              |       |
| COMMON STOCKS | 25.25%              |       |

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|  |       |            |              |
|--|-------|------------|--------------|
| CONSUMER DISCRETIONARY                 | 2.83% |            |              |
| AutoZone, Inc.....                     |       | 17,000 (a) | \$ 1,522,010 |
| Best Buy Co., Inc.....                 |       | 30,000 (a) | 1,425,600    |
| GAP (The), Inc.....                    |       | 121,000    | 2,071,520    |
| Home Depot, Inc.....                   |       | 70,000     | 2,229,500    |
| Honda Motor Co., Ltd. ADR.....         |       | 20,000     | 403,200      |
| Liz Claiborne, Inc.....                |       | 44,000     | 1,498,200    |
| Lowe's Cos., Inc.....                  |       | 35,000     | 1,816,500    |
| Royal Caribbean Cruises Ltd.....       |       | 52,000     | 1,461,720    |
| Tribune Co.....                        |       | 34,500     | 1,583,550    |
| Urban Outfitters, Inc.....             |       | 24,000 (a) | 625,440      |
|  |       |            | -----        |
|  |       |            | 14,637,240   |
|  |       |            | -----        |
| CONSUMER STAPLES                       | 2.00% |            |              |
| Altria Group, Inc.....                 |       | 60,000     | 2,628,000    |
| Coca-Cola Enterprises, Inc.....        |       | 70,000     | 1,334,200    |
| Kimberly-Clark Corp.....               |       | 30,000     | 1,539,600    |
| PepsiCo, Inc.....                      |       | 26,100     | 1,196,163    |
| Procter & Gamble Co.....               |       | 23,400     | 2,171,988    |
| Wal-Mart Stores, Inc.....              |       | 26,000     | 1,452,100    |
|  |       |            | -----        |
|  |       |            | 10,322,051   |
|  |       |            | -----        |
| ENERGY                                 | 1.56% |            |              |
| ConocoPhillips.....                    |       | 34,000     | 1,861,500    |
| Halliburton Co.....                    |       | 64,000     | 1,552,000    |
| Occidental Petroleum Corp.....         |       | 65,500     | 2,307,565    |
| Talisman Energy, Inc.....              |       | 23,800     | 1,129,072    |
| Total S.A., ADR.....                   |       | 16,000     | 1,212,800    |
|  |       |            | -----        |
|  |       |            | 8,062,937    |
|  |       |            | -----        |
| EXCHANGE TRADED FUNDS                  | 0.33% |            |              |
| S&P 500 Index Fund.....                |       | 17,000     | 1,699,150    |
|  |       |            | -----        |
| FINANCIALS                             | 5.20% |            |              |
| AFLAC, Inc.....                        |       | 46,000     | 1,485,800    |
| Allstate Corp.....                     |       | 30,600     | 1,117,818    |
| American International Group, Inc..... |       | 25,000     | 1,442,500    |

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|                                    | Number of<br>Shares | Value        |
|------------------------------------|---------------------|--------------|
|                                    | -----               | -----        |
| FINANCIALS (CONTINUED)             |                     |              |
| Aon Corp.....                      | 92,000              | \$ 1,918,200 |
| Bank of America Corp.....          | 38,500              | 3,004,540    |
| Capital One Financial Corp.....    | 31,000              | 1,768,240    |
| Citigroup, Inc.....                | 94,000              | 4,277,940    |
| Fannie Mae.....                    | 22,700              | 1,593,540    |
| First Tennessee National Corp..... | 43,000              | 1,825,780    |
| Morgan Stanley.....                | 28,000              | 1,412,880    |

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|                                       |             |            |
|---------------------------------------|-------------|------------|
| National City Corp.....               | 47,000      | 1,384,620  |
| Wachovia Corp.....                    | 48,000      | 1,977,120  |
| Washington Mutual, Inc.....           | 15,000      | 590,550    |
| Wells Fargo & Co.....                 | 59,800      | 3,079,700  |
|                                       |             | -----      |
|                                       |             | 26,879,228 |
|                                       |             | -----      |
| HEALTH CARE                           | 3.79%       |            |
| Amgen, Inc.....                       | 45,000 (a)  | 2,905,650  |
| Angiotech Pharmaceuticals, Inc.....   | 38,000 (a)  | 1,658,700  |
| C. R. Bard, Inc.....                  | 22,000      | 1,562,000  |
| Caremark RX, Inc.....                 | 66,000 (a)  | 1,491,600  |
| Guidant Corp.....                     | 32,000      | 1,499,200  |
| McKesson Corp.....                    | 44,000      | 1,464,760  |
| Merck & Co., Inc.....                 | 28,000      | 1,417,360  |
| Mylan Laboratories, Inc.....          | 71,000      | 2,744,150  |
| Pfizer, Inc.....                      | 109,000     | 3,311,420  |
| UnitedHealth Group, Inc.....          | 30,400      | 1,529,728  |
|                                       |             | -----      |
|                                       |             | 19,584,568 |
|                                       |             | -----      |
| INDUSTRIALS                           | 1.30%       |            |
| Boeing Co.....                        | 22,900      | 786,157    |
| Deere & Co.....                       | 28,000      | 1,492,680  |
| L-3 Communications Holdings, Inc..... | 38,000 (a)  | 1,643,500  |
| Lockheed Martin Corp.....             | 33,000      | 1,522,950  |
| Northrop Grumman Corp.....            | 15,000      | 1,293,300  |
|                                       |             | -----      |
|                                       |             | 6,738,587  |
|                                       |             | -----      |
| INFORMATION TECHNOLOGY                | 2.84%       |            |
| Amdocs Ltd.....                       | 79,000 (a)  | 1,485,200  |
| Cisco Systems, Inc.....               | 135,000 (a) | 2,637,900  |
| Dell, Inc.....                        | 94,000 (a)  | 3,138,660  |
| First Data Corp.....                  | 30,700      | 1,226,772  |
| Internet Security Systems, Inc.....   | 100,000 (a) | 1,250,000  |
| Microsoft Corp.....                   | 106,000     | 2,945,740  |
| Nokia Corp., ADR.....                 | 126,000     | 1,965,600  |
|                                       |             | -----      |
|                                       |             | 14,649,872 |
|                                       |             | -----      |

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|  | Number of<br>Shares | Value        |
|--|---------------------|--------------|
|  | -----               | -----        |
| MATERIALS                                      | 3.98%               |              |
| Alcoa, Inc.....                                | 91,000              | \$ 2,380,560 |
| BHP Billiton Ltd.....                          | 536,905             | 3,837,553    |
| Freeport-McMoRan Copper & Gold, Inc., Class B. | 68,000 (a)          | 2,250,800    |
| Georgia-Pacific Corp.....                      | 88,000              | 2,133,120    |
| International Paper Co.....                    | 25,300              | 987,206      |
| Newcrest Mining Ltd.....                       | 353,352             | 2,621,267    |

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|  |                |             |
|--|----------------|-------------|
| Rio Tinto Ltd.....                                       | 169,789        | 3,777,481   |
| WMC Resources Ltd.....                                   | 862,083 (a)    | 2,579,078   |
|  |                | -----       |
|  |                | 20,567,065  |
|  |                | -----       |
| TELECOMMUNICATION SERVICES                               | 0.30%          |             |
| CenturyTel, Inc.....                                     | 45,000         | 1,525,050   |
|  |                | -----       |
| UTILITIES  | 1.12%          |             |
| Entergy Corp.....  | 22,100         | 1,196,715   |
| Exelon Corp.....   | 48,000         | 3,048,000   |
| PPL Corporation.....                                     | 38,000         | 1,556,100   |
|  |                | -----       |
|  |                | 5,800,815   |
|  |                | -----       |
| Total Common Stocks (cost \$126,572,405).....            |                | 130,466,563 |
|  |                | -----       |
| PREFERRED STOCKS   | 6.25%          |             |
| BANKING  | 1.39%          |             |
| Citibank NA Series A, 6.34% Pfd.....                     | 2,200 (a)      | 2,227,500   |
| JP Morgan Chase & Co., Inc. Pfd.....                     | 50,000 (a)     | 4,962,500   |
|  |                | -----       |
|  |                | 7,190,000   |
|  |                | -----       |
| FINANCIALS   | 4.86%          |             |
| ABN Amro North America, 144A, 6.075% Pfd.....            | 10,750 (b) (c) | 10,901,177  |
| ABN Amro North America, 144A, 8.75% Pfd.....             | 13,500 (b)     | 14,234,063  |
|  |                | -----       |
|  |                | 25,135,240  |
|  |                | -----       |
| Total Preferred Stocks (cost \$32,490,987).....          |                | 32,325,240  |
|  |                | -----       |
| U.S. GOVERNMENT SECURITIES                               | 23.98%         |             |
| U.S. TREASURY BONDS                                      | 2.66%          |             |
| United States Treasury Bonds, 6.38%, 8/15/27..           | 11,500,000     | 13,726,780  |
|  |                | -----       |
| U.S. TREASURY NOTES                                      | 21.32%         |             |
| United States Treasury Notes, 2.00%, 8/31/05..           | 11,250,000     | 11,374,807  |
| United States Treasury Notes, 3.50%, 11/15/06.           | 40,000,000     | 41,795,320  |
| United States Treasury Notes, 4.75%, 11/15/08.           | 9,000,000      | 9,806,139   |
| United States Treasury Notes, 6.00%, 8/15/09..           | 21,900,000     | 25,310,772  |
| United States Treasury Notes, 5.00%, 8/15/11..           | 20,000,000     | 21,882,820  |
|  |                | -----       |
|  |                | 110,169,858 |
|  |                | -----       |
| Total U.S. Government Securities (cost \$119,572,467)... |                | 123,896,638 |
|  |                | -----       |

|                                       | Principal<br>Amount | Value |
|---------------------------------------|---------------------|-------|
|                                       | -----               | ----- |
| AGENCY NON-MORTGAGE BACKED SECURITIES | 9.98%               |       |



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|   |                     |               |
|---|---------------------|---------------|
| Federal Home Loan Mortgage Corp., 2.70%, 5/28/08..                      | \$24,900,000        | \$ 24,942,181 |
| Federal National Mortgage Association, 3.15%,<br>5/28/08.....           | 26,570,000          | 26,632,705    |
|   |                     | -----         |
| Total Agency Non-Mortgage Backed Securities (cost<br>\$51,623,368)..... |                     | 51,574,886    |
|   | Contracts           | -----         |
| OPTIONS   |                     |               |
| OPTIONS -- PUTS & CALLS   | 0.04%               |               |
| Canadian Dollar Put Option expiring 10/01/03 @<br>\$1.45.....           | 62,000,000 (a)      | 310           |
| Japanese Yen Call Option expiring 3/23/04 @<br>\$0.0085.....            | 16,500,000 (a)      | 214,847       |
|   |                     | -----         |
| Total Options (cost \$398,810).....                                     |                     | 215,157       |
|   |                     | -----         |
| Total Long Term Investments -- 65.50% (cost \$330,658,037).             |                     | 338,478,484   |
|   | Principal<br>Amount | -----         |
| SHORT-TERM INVESTMENTS  |                     |               |
|   | 34.73%              |               |
| Consolidated Edison Company of New York, 1.11%,<br>10/01/03.....        | \$ 9,100,000        | 9,100,000     |
| UBS Financial Corp., 1.11%, 10/01/03.....                               | 25,000,000          | 25,000,000    |
| Toyota Motor Credit Corp., 1.04%, 10/03/03.....                         | 25,000,000          | 24,998,555    |
| New York Life Capital Corp., 1.02%, 10/17/03.....                       | 25,000,000          | 24,988,667    |
| 7-Eleven, Inc., 1.07%, 10/28/03.....                                    | 20,500,000          | 20,483,549    |
| Govco, Inc., 1.05%, 10/29/03.....                                       | 25,000,000          | 24,979,583    |
| Deluxe Corp., 1.05%, 11/04/03.....                                      | 25,000,000          | 24,975,208    |
| Corporate Asset Funding Co., 1.06%, 11/06/03.....                       | 25,000,000          | 24,973,500    |
|   |                     | -----         |
| Total Short-Term Investments (cost \$179,499,062).....                  |                     | 179,499,062   |
|   |                     | -----         |
| Total Investments -- 100.23% (cost \$510,157,099).....                  |                     | 517,977,546   |
| Securities Sold Short -- (3.80)% (proceeds \$19,959,120)...             |                     | (19,651,300)  |
| Other assets less liabilities -- 3.57%.....                             |                     | 18,436,883    |
|   |                     | -----         |
| Net Assets -- 100.00%.....  |                     | \$516,763,129 |
|   |                     | =====         |

- 
- (a) Non-income producing security.
  - (b) Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions except from registration, normally to qualified institutional buyers. At September 30, these securities amounted to a value of \$25,135,240 or 4.86% of net assets.
  - (c) Variable security; dividend rate reflects rate currently in effect.

For Federal income tax purposes, the tax basis of investments owned at September 30, 2003 was \$511,256,979 and net unrealized appreciation of investments consisted of:

|                                 |              |       |
|---------------------------------|--------------|-------|
| Gross unrealized appreciation.. | \$13,532,364 |       |
| Gross unrealized depreciation.. | (6,811,797)  |       |
|                                 |              | ----- |
| Net unrealized appreciation.... | \$ 6,720,567 | ===== |

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|  | Number of<br>Shares | Value        |
|--|---------------------|--------------|
|  | -----               | -----        |
| SECURITIES SOLD SHORT                            | 3.80%               |              |
| COMMON STOCKS                                    | 3.80%               |              |
| CONSUMER DISCRETIONARY                           | 1.51%               |              |
| Circuit City Stores, Inc.....                    | 200,000             | \$ 1,906,000 |
| Ford Motor Co.....                               | 66,000              | 710,820      |
| May Department Stores Co. (The).....             | 58,000              | 1,428,540    |
| Pacific Sunwear of California, Inc.....          | 101,000             | 2,086,660    |
| Tiffany & Co.....                                | 45,000              | 1,679,850    |
|  |                     | -----        |
|  |                     | 7,811,870    |
|  |                     | -----        |
| CONSUMER STAPLES                                 | 0.31%               |              |
| Albertson's, Inc.....                            | 77,000              | 1,583,890    |
|  |                     | -----        |
| FINANCIALS                                       | 0.41%               |              |
| Bank of New York Co., Inc. (The).....            | 73,000              | 2,125,030    |
|  |                     | -----        |
| HEALTH CARE                                      | 0.51%               |              |
| Cephalon, Inc.....                               | 29,000              | 1,331,680    |
| Eli Lilly & Co.....                              | 22,000              | 1,306,800    |
|  |                     | -----        |
|  |                     | 2,638,480    |
|  |                     | -----        |
| INDUSTRIALS                                      | 0.37%               |              |
| Honeywell International, Inc.....                | 73,000              | 1,923,550    |
|  |                     | -----        |
| INFORMATION TECHNOLOGY                           | 0.28%               |              |
| Siebel Systems, Inc.....                         | 150,000             | 1,458,000    |
|  |                     | -----        |
| MATERIALS  | 0.41%               |              |
| Nucor Corp.....                                  | 46,000              | 2,110,480    |
|  |                     | -----        |
| Total Securities Sold Short (cost \$19,959,120). |                     | \$19,651,300 |
|  |                     | =====        |

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For Federal income tax purposes, the tax basis of securities held short at September 30, 2003 was \$19,959,120 and net unrealized appreciation of investments consisted of:

Gross unrealized appreciation.. \$ 730,911  
Gross unrealized depreciation.. (423,091)  
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Net unrealized appreciation.... \$ 307,820  
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THE ZWEIG TOTAL RETURN FUND, INC.

FINANCIAL HIGHLIGHTS

September 30, 2003  
 (Unaudited)

|  | Total Net Assets | Net Asset Value<br>per share |
|--|------------------|------------------------------|
|  | -----            | -----                        |
| Beginning of period: December 31, 2002.....  | \$532,763,318    | \$ 5.                        |
| Net investment income.....   | \$ 5,571,653     | \$ 0.06                      |
| Net realized and unrealized gain on investments.....   | 13,589,619       | 0.11                         |
| Dividends from net investment income and<br>distributions from net long-term and short-term<br>capital gains.....              | (9,976,307)      | (0.11)                       |
| Tax return of capital.....   | (27,710,144)     | (0.30)                       |
| Net asset value of shares issued to shareholders in<br>reinvestment of dividends resulting in issuance of<br>common stock..... | 2,524,990        | 0.03                         |
|  | -----            | -----                        |
| Net decrease in net assets/net asset value.....  | (16,000,189)     | (0.                          |
|  | -----            | -----                        |
| End of period: September 30, 2003.....   | \$516,763,129    | \$ 5.                        |
|  | =====            | =====                        |

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 + Per share data are being calculated based on average share method.

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 KEY INFORMATION

1-800-272-2700 Zweig Shareholder Relations: For general information and literature, as well as updates on net asset value, share price, major industry groups and other key information

REINVESTMENT PLAN

Many of you have questions about our reinvestment plan. We urge shareholders who want to take advantage of this plan and whose shares are held in "Street Name," to consult your broker as soon as possible to determine if you must change registration into your own name to participate.

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 Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940 that the Fund may from time to time purchase its shares of common stock in the open market when Fund shares are trading at a discount from their net asset value.

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OFFICERS AND DIRECTORS

Philip R. McLoughlin  
Chairman of the Board and President

Carlton Neel  
Executive Vice President

David Dickerson  
Senior Vice President

Nancy J. Engberg  
Secretary

Nancy Curtiss  
Treasurer

Charles H. Brunie  
Director

Elliot S. Jaffe  
Director

Wendy Luscombe  
Director

Alden C. Olson, Ph.D.  
Director

James B. Rogers, Jr.  
Director

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Phoenix/Zweig Advisers LLC  
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New York, NY 10022

Fund Administrator  
Phoenix Equity Planning Corporation  
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Custodian  
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One Wall Street  
New York, NY 10286

Transfer Agent  
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Legal Counsel  
Katten Muchin Zavis Rosenman  
575 Madison Avenue  
New York, NY 10022

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This report is transmitted to the shareholders of The Zweig Total Return Fund, Inc. for their information. This is not a prospectus, circular or representation intended for use in the purchase of shares of the Fund or any securities mentioned in this report.

PXP 1376

3206-3Q-03

Quarterly Report

Zweig

The Zweig Total  
Return Fund, Inc.

September 30, 2003

[GRAPHIC]