

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

ZWEIG TOTAL RETURN FUND INC

Form N-30B-2

November 20, 2001

November 1, 2001

[PHOTO]

Dear Shareholder:

The Zweig Total Return Fund's net asset value decreased 2.8% during the quarter ended September 30, 2001, including \$0.18 in reinvested distributions.

For the nine months ended September 30, 2001, the Fund's net asset value declined 5.9%, including \$0.54 in reinvested distributions. The Fund's average overall exposure during the period was 89%.

The third quarter was a difficult one for the equity markets. The Dow Jones Industrial Average dropped 15.8%, its worst showing since the last quarter of 1987. The Nasdaq composite declined 31%, and the S&P 500 Index was down nearly 15%.^{1/} According to Lipper Inc., 99% of equity mutual funds finished the quarter in the red, and the average diversified mutual fund dipped 16.2%.

^{1/}The Dow Jones Industrial Average and the S&P 500 Index measure broad stock market total-return performance. The Nasdaq composite measures technology-oriented stock total-return performance. All of the indices are unmanaged and not available for direct investment.

In line with our indicators, which have served us so well in the past, we were bullish during the quarter for the following reasons. Historically, going back to 1913, there have been roughly 11.9 cumulative years when we were in a similar mode--three or more Federal Reserve interest rate cuts and a growing money supply--and the average annual return for the S&P 500 during that period was 32.8%. The average rate of return for the remaining 76 years was in the vicinity of 2.2%.

That is basically why we were bullish. Other indicators pointed in the same direction. What went wrong--and that was before the terrorist attacks on September 11--is that I underestimated the impact of the bursting of the technology bubble on the market and the economy. I thought the Fed actions would induce capital expenditures in other areas sooner and stimulate consumer spending. The housing market, for example, did show improvement. However, conditions unexpectedly worsened in August and the events of September 11 only exacerbated the market's weakness.

DISTRIBUTION DECLARED

In accordance with our policy of distributing 10% of net assets per year, which equals 0.83% per month (10% divided by 12 months), the Fund announced a distribution of \$0.056 per share payable on November 26, 2001 to shareholders of record on November 13, 2001. The amount of the distribution depends on the exact net asset value at the time of declaration. For the November distribution, 0.83% of the Fund's net asset value was equivalent to \$0.056 per share. Including this distribution, the Fund's payout since inception is now \$11.36 per share.

MARKET OUTLOOK

Our bond exposure on September 30 was 60% compared with 57% at the end of

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the second quarter. If we were fully invested, we would be 62.5% in bonds and 37.5% in stocks. Consequently, at 60%, we are at approximately 96% of a full position (60%/62.5%).

Treasury securities performed very strongly in the third quarter. As economic weakness accelerated, the Federal Reserve cut interest rates dramatically. The 30-year Treasury bond began the quarter yielding 5.69% but rallied smartly to 5.42% at the end of September. While the long bond performed well, the sharpest rally came in the front end of the yield curve, as two-year notes moved 131 basis points, from 4.16% to 2.85%.

The main factors for the powerful performance of shorter dated Treasury notes included an acceleration of worldwide economic woes, with most U.S. data pointing to a possible recession; the so-called "flight to quality," with investors favoring short maturity Treasuries over all other investments after the terrorist attacks; and the Fed's steep rate cuts.

The Fed has now cut the overall Federal funds rate--the rate it can directly affect--a total of 400 basis points this year. This is, by far, the most dramatic reduction implemented by the Fed in so short a time. It seems the Fed wants the investing public to know that it stands willing to do whatever it takes to avert a major recession, stemming from a loss in consumer confidence after the attacks. As a result, excess liquidity has been flowing to the safety of U.S. Treasury notes and bonds.

Our equity exposure as of September 30 was 34%. At this figure, we were at about 91% of a full position (34%/37.5%). At the close of the second quarter, we were at 39%, slightly above our benchmark of 37.5%.

The World Trade Center attack is perhaps the equivalent of a 1000-year flood. It presents an entirely new and different set of largely unpredictable eventualities. However, what happened to the market after the sneak attack on Pearl Harbor on December 7, 1941, might provide a clue. At the time of the attack, the market was already down roughly 10% from its previous high. On news of the attack, the Dow fell 8.8% over a two-week period before recovering in early January. By November 1942, less than a year later, the Dow had rallied back to its pre-attack level.

As far as the post-September 11 stock market is concerned, I think there will be at least five and perhaps six areas of economic stimulus that will be very important. They are:

One, we will see some tax cuts. I am not sure how Congress will work out the specifics, but there is some bipartisanship and we'll get something.

Two, there will be more government spending. President Bush is requesting an economic stimulus package of \$75 billion on top of \$40 billion in emergency spending and \$15 billion to the airlines. And, we expect there will be more of that.

Three, we have lower oil prices, partly because of the attack. The effect is almost like a tax cut.

Four, the Fed has cut rates two more times since the attack, and it is flooding the economy with liquidity. This may be temporary, but it should help.

Five, the insurance companies will pay out at least \$40 billion. That is not just for the World Trade Center. It includes life and other property insurance that will go back to rebuilding the economy.

Then, there is a sixth stimulus that has nothing to do with the terrorist

attack. It is the

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huge inventory drop, which I was paying a lot of attention to prior to September 11. Capacity utilization is also way down, but at some point, inventory gets so thin that it has to be rebuilt.

These are all positives for the economy. As for negatives, we may see one for housing, depending on the direction of prices. Also, consumer confidence is pretty poor. Consumer confidence is also low at the end of a recession. That did not bother me before the attack, but there's an additional fear factor here. If consumers are reluctant to spend--and I am not making a prediction--there could be some problems.

I don't know whether or when people will go back to living normally, but there will be increased spending. But will it be enough to give us a vigorous recovery? My guess is probably not. However, I think we will come off the lows.

There is an enormous shock effect right now. Whatever the gross national product is for the third and fourth quarters, I believe we will see a positive first quarter in 2002, but I don't look for it to be huge.

Prior to the attack, consumers were concerned about the weakening economy. S&P 500 earnings were down about 22% for the quarter, and the unemployment rate was up 1% this year to 4.9%. However, the S&P has returned 15.8% in previous periods when earnings were down versus only 3.8% when earnings were up 10% or better. In addition, in the nine previous cases when unemployment rose 1% as it has this year, the S&P was higher a year later in every case by an average of 24.9%. History shows that once economic weakness is this widespread and the Fed is cutting rates, stocks soon bottom and head sharply higher.

My indicators are bullish. Our monetary model is supported by nine Fed cuts, T-bills yields down over 50%, long bond yields off over 20%, and a dramatically steeper yield curve. Our sentiment model is extremely bullish as well because of the widespread pessimism. The puts/calls ratio, investor sentiment surveys, and cash levels show that investors have raised cash in fear of lower stock prices. In previous instances when investors have shown this level of pessimism, the market has returned over 32% a year.

In view of the above considerations, we remain bullish and as of this writing, are about 93% invested.

PORTFOLIO COMPOSITION

Our leading industry groups as of September 30 included health care, financial services, technology, telecommunications, oil and oil services, and retailing. These groups all appeared on our June 30 listing. During the quarter, we increased our position in health care, a category that held up well in a difficult market. Our holdings were trimmed in oil and oil services, a group that underperformed. Technology lost exposure because of market weakness.

Some of our largest individual holdings include Pfizer, Microsoft, General Electric, Citigroup, Wal-Mart, Johnson & Johnson, Tyco, SBC Communications, Verizon, and Eli Lilly.

Eli Lilly is new to our portfolio. Johnson & Johnson, SBC Communications, and Verizon showed relatively good performance during the quarter. Among the top holdings listed in our previous quarterly report, we have reduced our stake in AOL Time Warner, and IBM and Intel underperformed.

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Sincerely,

/s/ Martin E. Zweig, Ph.D.
 Martin E. Zweig, Ph.D.
 Chairman

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THE ZWEIG TOTAL RETURN FUND, INC.

STATEMENT OF NET ASSETS
 September 30, 2001
 (Unaudited)

| | Number of Shares | Value |
|-------------------------------------|---------------------|--------------|
| | ----- | ----- |
| Common Stocks | 33.58% | |
| Aerospace & Air Transport | 0.19% | |
| United Technologies Corp. | 24,500 | \$ 1,139,250 |
| | | ----- |
| Automotive | 0.12% | |
| General Motors Corp. | 16,000 | 686,400 |
| | | ----- |
| Building & Forest Products | 0.60% | |
| Cemex S.A. de CV, ADR..... | 28,856 | 592,702 |
| International Paper Co. | 39,700 | 1,381,560 |
| Weyerhaeuser Co. | 32,000 | 1,558,720 |
| | | ----- |
| | | 3,532,982 |
| | | ----- |
| Chemicals | 0.31% | |
| Dow Chemical Co. | 55,900 | 1,831,284 |
| | | ----- |
| Commercial Services | 0.22% | |
| Omnicom Group, Inc. | 20,000 | 1,298,000 |
| | | ----- |
| Consumer Products | 1.38% | |
| Anheuser-Busch Cos., Inc. | 32,000 | 1,340,160 |
| Avon Products, Inc. | 16,000 | 740,000 |
| Kimberly-Clark Corp. | 32,000 | 1,984,000 |
| PepsiCo, Inc. | 47,800 | 2,318,300 |
| Procter & Gamble Co. | 24,000 | 1,746,960 |
| | | ----- |
| | | 8,129,420 |
| | | ----- |
| Electronics -- Electrical | 1.50% | |
| Celestica, Inc. | 16,000 (a) | 436,800 |
| Emerson Electric Co. | 32,000 | 1,505,920 |
| Flextronics International Ltd. | 16,000 (a) | 264,640 |
| General Electric Co. | 162,000 | 6,026,400 |
| Jabil Circuit, Inc. | 32,000 (a) | 572,800 |
| | | ----- |
| | | 8,806,560 |
| | | ----- |
| Engineering & Machinery | 0.12% | |
| SPX Corp. | 8,500 | 704,650 |

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| | Number of Shares | Value |
|-----------------------------------------|---------------------|--------------|
| ----- | | |
| Financial Services | 6.72% | |
| American International Group, Inc. | 51,100 | \$ 3,985,800 |
| Bank of America Corp. | 63,700 | 3,720,080 |
| Capital One Financial Corp. | 32,000 | 1,472,960 |
| Citigroup, Inc. | 129,000 | 5,224,500 |
| Fannie Mae..... | 43,100 | 3,450,586 |
| Freddie Mac..... | 57,000 | 3,705,000 |
| H & R Block, Inc. | 64,000 | 2,467,840 |
| Household International, Inc. | 32,000 | 1,804,160 |
| Lehman Brothers Holdings, Inc. | 36,800 | 2,092,080 |
| Lincoln National Corp. | 32,000 | 1,492,160 |
| MBNA Corp. | 32,000 | 969,280 |
| Merrill Lynch & Co., Inc. | 24,000 | 974,400 |
| MetLife, Inc. | 48,000 | 1,425,600 |
| Morgan Stanley Dean Witter & Co. | 36,900 | 1,710,315 |
| SouthTrust Corp. | 32,200 | 820,134 |
| Washington Mutual, Inc. | 63,850 | 2,456,948 |
| Wells Fargo & Co. | 40,000 | 1,778,000 |
| | | ----- |
| | | 39,549,843 |
| | | ----- |
| Health Care | 5.86% | |
| American Home Products Corp. | 32,000 | 1,864,000 |
| Amgen, Inc. | 32,000 (a) | 1,880,640 |
| Bristol-Myers Squibb Co. | 47,800 | 2,655,768 |
| Cardinal Health, Inc. | 24,100 | 1,782,195 |
| Eli Lilly & Co. | 48,000 | 3,873,600 |
| Guidant Corp. | 38,400 (a) | 1,478,400 |
| Johnson & Johnson | 82,800 | 4,587,120 |
| MedImmune, Inc. | 31,900 (a) | 1,136,597 |
| Pfizer, Inc. | 159,200 | 6,383,920 |
| Pharmacia Corp. | 56,000 | 2,271,360 |
| St. Jude Medical, Inc. | 24,000 | 1,642,800 |
| Tenet Healthcare Corp. | 38,100 (a) | 2,272,665 |
| UnitedHealth Group, Inc. | 40,000 | 2,660,000 |
| | | ----- |
| | | 34,489,065 |
| | | ----- |
| Investment Companies | 0.92% | |
| Nasdaq-100 Index..... | 122,000 | 3,535,560 |
| Semiconductor Holders Trust..... | 63,000 | 1,862,280 |
| | | ----- |
| | | 5,397,840 |
| | | ----- |
| Manufacturing | 1.14% | |
| Caterpillar, Inc. | 32,000 | 1,433,600 |
| Honeywell International, Inc. | 32,000 | 844,800 |
| Tyco International Ltd. | 98,000 | 4,459,000 |
| | | ----- |
| | | 6,737,400 |

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| | | Number of Shares | Value |
|-------------------------------------------|-------|---------------------|--------------|
| | | ----- | ----- |
| Media | 1.21% | | |
| Comcast Corp., Class A..... | | 46,700 (a) | \$ 1,675,129 |
| Gannett Co., Inc | | 16,000 | 961,760 |
| Gemstar-TV Guide International, Inc | | 39,000 (a) | 768,690 |
| McGraw-Hill Cos., Inc. | | 35,500 | 2,066,100 |
| New York Times Co., Class A..... | | 28,500 | 1,112,355 |
| Viacom, Inc., Class B..... | | 16,100 (a) | 555,450 |
| | | | ----- |
| | | | 7,139,484 |
| | | | ----- |
| Metals | 0.21% | | |
| Alcoa, Inc. | | 39,900 | 1,237,299 |
| | | | ----- |
| Oil & Oil Services | 2.27% | | |
| Anadarko Petroleum Corp. | | 38,400 | 1,846,272 |
| BJ Services Co. | | 32,000 (a) | 569,280 |
| Chevron Corp. | | 24,200 | 2,050,950 |
| El Paso Corp. | | 32,000 | 1,329,600 |
| Enron Corp. | | 30,100 | 819,623 |
| Exxon Mobil Corp. | | 89,200 | 3,514,480 |
| Occidental Petroleum Corp. | | 32,000 | 778,880 |
| Santa Fe International Corp. | | 16,000 | 340,000 |
| Talisman Energy, Inc. | | 24,000 | 816,240 |
| USX-Marathon Group | | 47,600 | 1,273,300 |
| | | | ----- |
| | | | 13,338,625 |
| | | | ----- |
| Railroads | 0.13% | | |
| CSX Corp. | | 24,000 | 756,000 |
| | | | ----- |
| Restaurants | 0.22% | | |
| McDonald's Corp. | | 48,000 | 1,302,720 |
| | | | ----- |
| Retailing | 1.97% | | |
| Home Depot, Inc. | | 71,000 | 2,724,270 |
| Kroger Co. | | 32,000 | 788,480 |
| Lowe's Cos., Inc. | | 59,300 | 1,876,845 |
| Target Corp. | | 36,200 | 1,149,350 |
| Wal-Mart Stores, Inc. | | 102,500 | 5,073,750 |
| | | | ----- |
| | | | 11,612,695 |
| | | | ----- |

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Number of

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| | Shares | Value |
|--------------------------------------------|-------------|--------------|
| | ----- | ----- |
| Technology | 5.18% | |
| AOL Time Warner, Inc. | 79,900 (a) | \$ 2,644,690 |
| Applied Materials, Inc. | 29,800 (a) | 847,512 |
| Cisco Systems, Inc. | 129,700 (a) | 1,579,746 |
| Corning, Inc. | 17,000 | 149,940 |
| Cypress Semiconductor Corp. | 33,000 (a) | 490,380 |
| Dell Computer Corp. | 87,100 (a) | 1,613,963 |
| Electronic Data Systems Corp. | 39,900 | 2,297,442 |
| EMC Corp. | 50,000 (a) | 587,500 |
| First Data Corp. | 31,700 | 1,846,842 |
| Intel Corp. | 141,400 | 2,890,216 |
| International Business Machines Corp. | 38,400 | 3,544,320 |
| JDS Uniphase Corp. | 17,000 (a) | 107,440 |
| Lucent Technologies, Inc. | 62,800 | 359,844 |
| Microchip Technology, Inc. | 24,500 (a) | 656,600 |
| Microsoft Corp. | 119,500 (a) | 6,114,815 |
| Motorola, Inc. | 32,200 | 502,320 |
| Network Appliance, Inc. | 17,000 (a) | 115,600 |
| Oracle Corp. | 122,700 (a) | 1,543,566 |
| QUALCOMM, Inc. | 24,500 (a) | 1,164,730 |
| Siebel Systems, Inc. | 39,800 (a) | 517,798 |
| Sun Microsystems, Inc. | 98,000 (a) | 810,460 |
| USinternetworking, Inc. | 29,950 (a) | 8,086 |
| Yahoo!, Inc. | 8,800 (a) | 77,528 |
| | | ----- |
| | | 30,471,338 |
| | | ----- |
| Telecommunications | 2.92% | |
| ADC Telecommunications, Inc. | 57,500 (a) | 200,675 |
| Amdocs Ltd. | 32,000 (a) | 852,800 |
| AT&T Corp. | 98,000 | 1,891,400 |
| AT&T Wireless Services, Inc. | 72,736 (a) | 1,086,676 |
| General Motors Corp., Class H. | 65,000 | 866,450 |
| Nokia Corp., ADR. | 70,000 | 1,095,500 |
| Nortel Networks Corp. | 65,000 | 364,650 |
| SBC Communications, Inc. | 87,900 | 4,141,848 |
| Telephone & Data Systems, Inc. | 15,900 | 1,499,370 |
| TyCom Ltd. | 22,500 (a) | 176,625 |
| Verizon Communications, Inc. | 71,900 | 3,890,509 |
| WorldCom, Inc. -- WorldCom Group. | 73,950 (a) | 1,112,208 |
| | | ----- |
| | | 17,178,711 |
| | | ----- |

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| | Number of Shares | Value |
|-----------------------------|------------------|------------|
| | ----- | ----- |
| Utilities -- Electric & Gas | 0.39% | |
| Calpine Corp. | 43,400 (a) | \$ 989,954 |
| Exelon Corp. | 28,800 | 1,284,480 |
| | | ----- |
| | | 2,274,434 |

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| | | |
|-------------------------------------------------------------------------------------------------------------------|------------------|---------------|
| Total Common Stocks..... | | 197,614,000 |
| Unit Investment Trusts | 0.43% | |
| S&P MidCap 400 Depository Receipts..... | 31,800 | 2,516,970 |
| | | ----- |
| | Principal Amount | ----- |
| United States Government Obligations | 59.63% | |
| FHLMC, 6.875%, 1/15/05..... | \$70,500,000 | 77,244,242 |
| FHLMC, 5.125%, 10/15/08..... | 38,100,000 | 38,560,515 |
| FHLMC, 7.00%, 3/15/10..... | 42,000,000 | 47,410,776 |
| United States Treasury Notes, 6.00%, 8/15/09..... | 21,900,000 | 24,090,876 |
| United States Treasury Bonds, 10.75%, 5/15/03.... | 15,000,000 | 16,907,235 |
| United States Treasury Bonds, 8.125%, 5/15/21.... | 33,700,000 | 44,620,923 |
| United States Treasury Bonds, 6.875%, 8/15/25.... | 40,500,000 | 47,913,404 |
| United States Treasury Bonds, 5.25%, 11/15/28.... | 40,000,000 | 38,603,160 |
| United States Treasury Bonds, 5.375%, 2/15/31.... | 15,700,000 | 15,606,789 |
| | | ----- |
| Total United States Government Obligations..... | | 350,957,920 |
| | | ----- |
| Short-term Investments | 5.56% | |
| CitiBank Capital, 3.47%, 10/01/01..... | 10,000,000 | 10,000,000 |
| Volkswagen Corp., 3.40%, 10/01/01..... | 22,700,000 | 22,700,000 |
| | | ----- |
| Total Short Term Investments..... | | 32,700,000 |
| | | ----- |
| Total Investments -- 99.20%..... | | 583,788,890 |
| Cash and Other Assets Less Liabilities -- 0.80%..... | | 4,715,053 |
| | | ----- |
| Net Assets (Equivalent to \$6.51 per share based on 90,417,863 shares of capital stock outstanding) -- 100%... | | \$588,503,943 |
| | | ===== |

(a) Non-income producing security

THE ZWEIG TOTAL RETURN FUND, INC.

FINANCIAL HIGHLIGHTS
September 30, 2001
(Unaudited)

| | Total Net Assets | Net Asset Value per share |
|----------------------------------------------------------------|------------------|------------------------------|
| | ----- | ----- |
| Beginning of period: December 31, 2000..... | \$671,055,863 | \$ 7.48 |
| Net investment income..... | \$ 12,420,590 | \$ 0.14 |
| Net realized and unrealized loss on investments..... | (51,187,488) | (0.57) |
| Dividends from net investment income and distributions from | | |

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| | | |
|--------------------------------------------------------------------------------------------------------------------------|---------------|---------|
| net long-term and short-term capital gains..... | (48,559,194) | (0.54) |
| Net asset value of shares issued to shareholders in reinvestment of dividends resulting in issuance of common stock..... | 4,774,172 | -- |
| | ----- | ----- |
| Net decrease in net assets/net asset value..... | (82,551,920) | (0.97) |
| | ----- | ----- |
| End of period: September 30, 2001..... | \$588,503,943 | \$ 6.51 |
| | ===== | ===== |

KEY INFORMATION

- 1-800-272-2700 Zweig Shareholder Relations:
For general information and literature
- 1-800-272-2700 The Zweig Total Return Fund Hot Line:
For 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.

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.

OFFICERS AND DIRECTORS
Martin E. Zweig, Ph.D.
Chairman of the Board and President

Quarterly Report

Jeffrey Lazar
Executive Vice President and Treasurer

Nancy J. Engberg
Secretary

Christopher M. Capano
Vice President

Charles H. Brunie
Director

Elliot S. Jaffe
Director

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Wendy Luscombe
Director

Alden C. Olson, Ph.D.
Director

James B. Rogers, Jr.
Director

Investment Adviser
Phoenix/Zweig Advisers LLC
900 Third Avenue
New York, NY 10022

[LOGO] Zweig
The Zweig Total
Return Fund, Inc.

September 30, 2001

Fund Administrator
Phoenix Equity Planning Corp.
56 Prospect St.
P.O. Box 150480
Harford, CT 06115-0480

Custodian
The Bank of New York
One Wall Street
New York, NY 10286

Transfer Agent
EquiServe Trust Co., N.A.
PO Box 43010
Providence, RI 02940-3010

Legal Counsel
Rosenman & Colin LLP
575 Madison Avenue
New York, NY 10022

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-01

[LOGO] PHOENIX INVESTMENT PARTNERS
A member of The Phoenix Companies, Inc